

Department of Audit State of Tennessee

John G. Morgan, Comptroller of the Treasury



2003
Annual Report

Department of Audit

2003 Annual Report

**to the
Tennessee General Assembly**



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

December 30, 2003

The Honorable Phil Bredesen, Governor
The Honorable John S. Wilder, Speaker of the Senate
The Honorable Jimmy Naifeh, Speaker of the
House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The 2003 annual report of the Department of Audit is submitted herewith in accordance with Section 4-3-304 of *Tennessee Code Annotated*.

The Department of Audit conducts audits or ensures that audits are conducted of state, county, and municipal governments; utility districts; internal school funds; and other local government authorities and agencies. Audits are also performed of state grants to nongovernmental organizations and of numerous federal programs for state and local governments.

In submitting this report, I would like to express my appreciation to all those who made possible the results reported, particularly the members of the General Assembly and the staff of this office.

Respectfully submitted,

John G. Morgan
Comptroller of the Treasury

JGM/ab

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Comptroller of the Treasury



John G. Morgan
Comptroller of the Treasury

In January 1999, John G. Morgan was elected Comptroller of the Treasury by the Tennessee General Assembly. Born on January 4, 1952, in Nashville, Tennessee, Mr. Morgan graduated from Austin Peay State University in 1974. He did graduate work at Louisiana State University from 1974 to 1976 and entered state government as a research assistant for the Legislative Fiscal Review Committee in 1976.

From 1978 to 1980, Mr. Morgan was a research assistant in the Department of Finance and Administration, and from 1980 to 1982, was an administrative assistant to the State Treasurer. In 1982, he began working in the Office of the Comptroller of the Treasury as Assistant Director of Bond Finance. He served as Director of Bond Finance from 1983 to 1987 and in 1987 also became Assistant to the Comptroller.

In October of 1987, Mr. Morgan left state government and became Vice President, Director of Public Finance, for Third National Bank

in Nashville. In February of 1989, he returned to state government as Executive Assistant to the Comptroller of the Treasury. Mr. Morgan is a former board member of the Tennessee Municipal League Risk Management Pool, Tennessee Municipal Bond Fund, and Nashville Thermal Transfer Corporation. He is married to Donna Morgan, and they have two sons, Brian and Kevin.

Comptroller Emeritus



**William R. Snodgrass
Comptroller Emeritus**

After serving as Comptroller of the Treasury from 1955 to 1999, Mr. Snodgrass decided not to seek another term of office. On January 13, 1999, by Joint Resolution of the 101st General Assembly, he was named Comptroller Emeritus for his unparalleled contribution to the government and citizens of Tennessee. He continues to serve as a senior policy advisor for the Office of the Comptroller.

Comptrollers of the Treasury

Daniel Graham	1836-1843
Felix K. Zollicoffer	1843-1849
B.H. Sheppard	1849-1851
Arthur R. Crozier	1851-1855
James C. Luttrell	1855-1857
James T. Dunlap	1857-1861
Joseph S. Foster	1861-1865
S.W. Hatchett	1865-1866
G.W. Blackburn	1866-1870
E.R. Pennebaker	1870-1873
W.W. Hobbs	January to May 1873
John C. Burch	May 1873-1875
James L. Gaines	1875-1881
James N. Nolan	1881-1883
P.P. Pickard	1883-1889
J.W. Allen	1889-1893
James A. Harris	1893-1899
Theo F. King	1899-1904
Frank Dibrell	1904-1913
George P. Woollen	1913-1915
John O. Thomason	1915-1923
Edgar J. Graham	1923-1931
Roy C. Wallace	1931-1937
John W. Britton	1937-1938
Marshall E. Priest	1938-1939
Robert W. Lowe	1939-1945
Jared Maddux	January to April 1945
Sam K. Carson	April 1945-1946
Jared Maddux	1946-1949
Cedric Hunt	1949-1953
Jeanne S. Bodfish	1953-1955
William R. Snodgrass	1955-1999
John G. Morgan	1999-

Department of Audit

John G. Morgan

Comptroller of the Treasury

Richard V. Norment, CIA, CGFM

Assistant to the Comptroller for County Audit

Arthur L. Alexander, CGFM

Director of County Audit

**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE,
CGFM, DABFE, DABFA**

Director of State Audit

Dennis F. Dycus, CPA, CFE, CGFM

Director of Municipal Audit

State of Tennessee

Phil Bredesen

Governor

John S. Wilder

Speaker of the Senate and Lieutenant Governor

Jimmy Naifeh

Speaker of the House of Representatives

Riley Darnell

Secretary of State

John G. Morgan

Comptroller of the Treasury

Dale Sims

State Treasurer

Paul G. Summers

Attorney General and Reporter

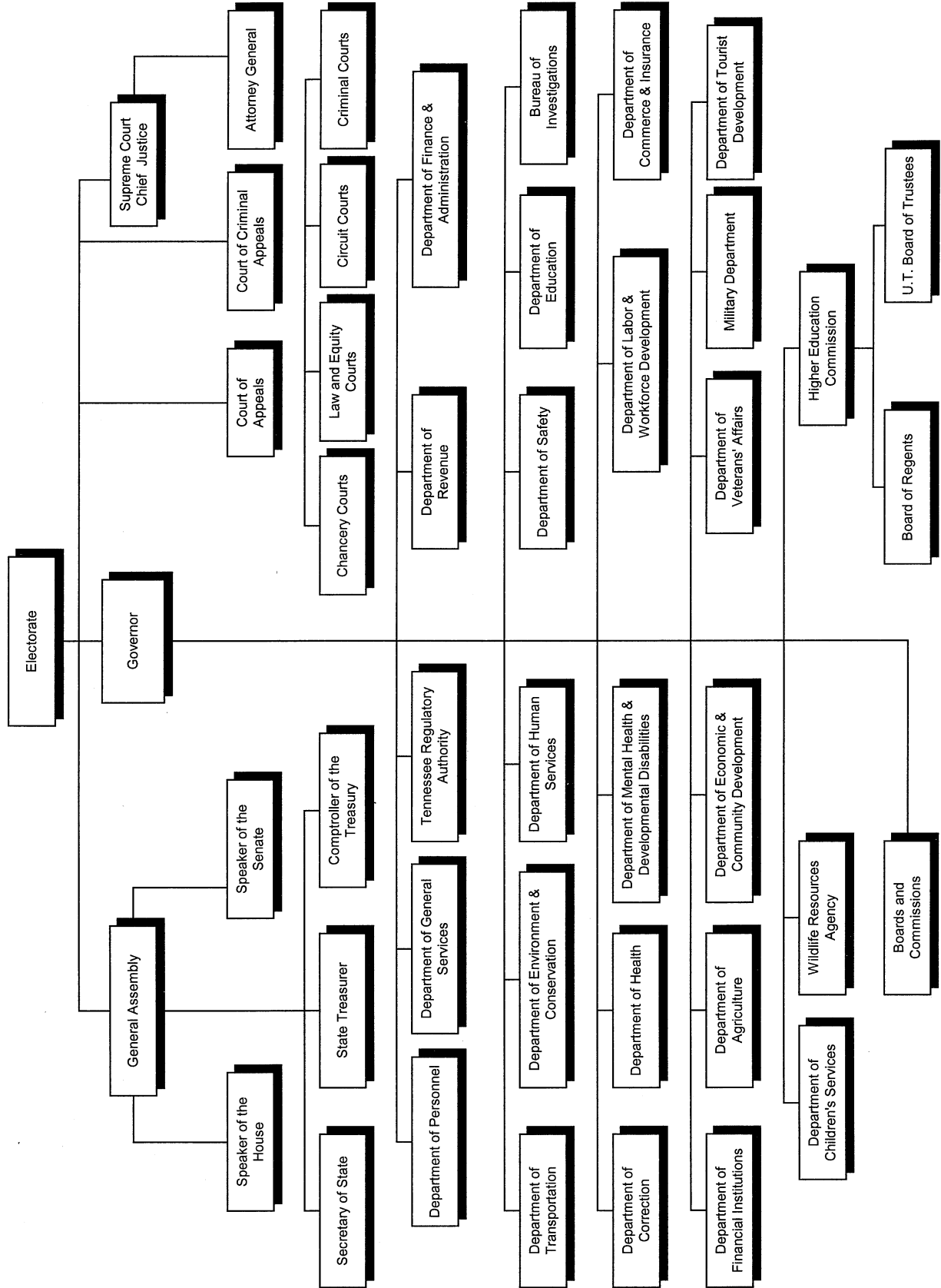
Dave Goetz

Commissioner of Finance and Administration

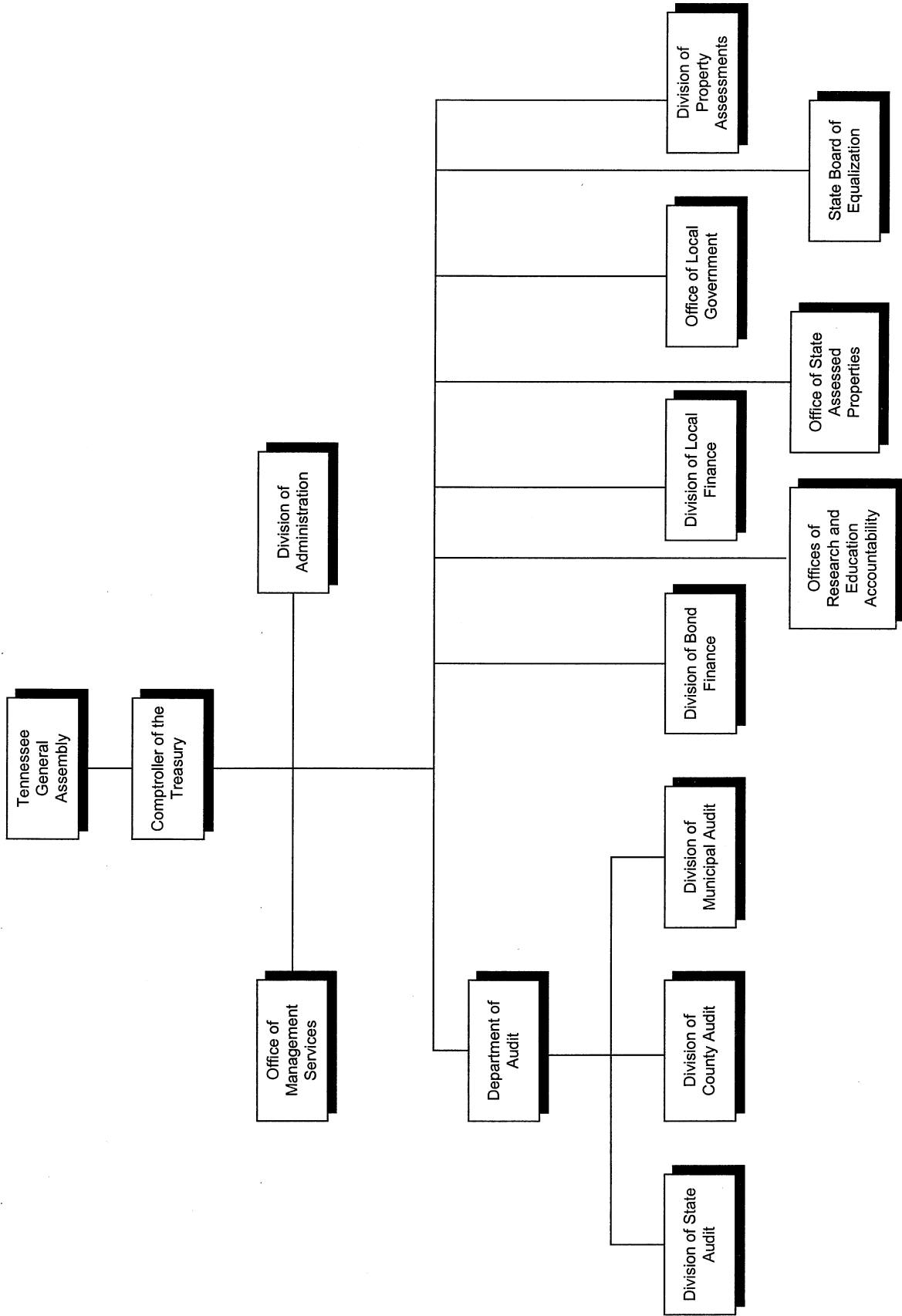
Frank F. Drowota

Chief Justice of the Supreme Court

State of Tennessee



Office of the Comptroller of the Treasury



Office of the Comptroller of the Treasury

The Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. State statutes prescribe the Comptroller's duties; among these duties are the audit of state and local governmental entities and participation in the general financial and administrative management of state government. The Department of Audit performs the audit function for the Comptroller. He also serves *ex officio* as a member of various committees, boards, and authorities.

Advisory Commission on Intergovernmental Relations
Baccalaureate Education System Trust
Board of Claims
Board of Equalization
Board of Standards
Building Commission
Child Care Facilities Corporation
Competitive Export Corporation
Consolidated Retirement System Board of Trustees
Council on Pensions and Insurance
Funding Board
Governor's Council on Health and Physical Fitness
Health Services and Development Agency
Higher Education Commission
Housing Development Agency
Information Systems Council
Library and Archives Management Board
Local Development Authority
Local Education Insurance Committee
Local Government Insurance Committee
Public Records Commission
Publications Committee
School Bond Authority
Security for Public Deposit Task Force
Sports Festivals, Inc.
State Capitol Commission
State Insurance Committee
State Trust of Tennessee Board of Directors
Student Assistance Corporation
Tuition Guaranty Fund Board
Utility Management Review Board
Water/Wastewater Financing Board

In addition to the Department of Audit, the Office of the Comptroller includes nine other divisions.

Division of Administration

The Division of Administration provides overall direction, coordination, and supervision to the various divisions within the Comptroller's Office. The division also provides research on particular topics involving state finances and assists various committees and members of the General Assembly in their review of state finances, including review, analysis, and drafting of proposed legislation.

Office of Management Services

The Office of Management Services provides the various divisions of the Comptroller's Office financial, administrative, and technical support and services in the areas of accounting, budgeting, payroll and personnel, information systems, contracting matters, and printing. The office assists the Comptroller in fulfilling his responsibilities involving policies, plans, reports, special projects, and contract review and approval. The office also provides the Comptroller technical and analytical assistance in support of his responsibilities as a member of certain boards and commissions, such as the State Building Commission, Board of Standards, and Information Systems Council. The office assists in recruiting auditors and accountants for all audit divisions and is responsible for developing the Affirmative Action Plan. The office has lead responsibility for overseeing the continuous improvement projects for the Comptroller's Office.

Division of Bond Finance

The Division of Bond Finance is responsible for the issuance and repayment of debt by the State Funding Board, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority and for the issuance of debt by the Bond Finance Committee of the Tennessee Housing Development Agency.

The proceeds of these debt obligations are used to finance general state infrastructure; provide loans to local governments for water and sewer systems, resource recovery, public works projects, airports, and rural fire equipment; provide loans to certain nonprofit corporations for mental health, mental retardation, and alcohol and drug facilities; construct revenue-producing facilities at the state's public higher education facilities; and provide single-family mortgages at below market interest rates to low- and moderate-income persons.

The division, jointly with the Department of Environment and Conservation, administers the State Revolving Funds, which provide loans to local governments for sewer works and water works. The division, jointly with the Department of Transportation, administers the Utility Relocation Loan Program, which provides loans to local governments for relocation of utilities required by highway construction. The division administers the loan guarantee program of the small and minority business telecommunication business assistance program under the Department of Economic and Community Development.

Division of Local Finance

The Division of Local Finance has certain statutory responsibilities with regard to the financial operations of local governments in Tennessee. The division attempts to provide a continuing and uniform program of assistance and information to local government officials in order to assist them in performing their duties as elected representatives. The division's responsibilities include the following:

- **Local Government Debt Management:** determine that debt proposals and annual budgets for certain cities, counties, utility districts and emergency communication districts are in accordance with statutory requirements.
- **Local Government Resource Management:** determine that official performance bonds for elected and appointed county officers and fiscal officers of school systems and emergency communications districts are in accordance with statutory requirements; determine that certain investment programs for cities, counties, and utility districts are in accordance with statutory requirements.
- **Debt Information Report:** determine that information reports submitted by local governments pertaining to the issuance of debt are in accordance with statutory requirements.
- **Electric System Cable Plans:** determine the feasibility of business plans submitted by local electric systems desiring to provide certain telecommunications services.
- **Interest Rate/Forward Purchase Agreements:** determine that proposals submitted by local governments for interest rate swap agreements and forward purchase agreements are in accordance with guidelines established by the State Funding Board.

Office of Local Government

The Office of Local Government provides information and assistance to local government officials and to the legislature as needed. The office maintains precinct maps, assists local governments with reapportionment and redistricting, and acts as liaison with the Bureau of the Census in preparing for the decennial census. The office also provides assistance to counties involved in the Tennessee Base Mapping Project, and the implementation of the statewide Geographic Information System (GIS).

Division of Property Assessments

The Division of Property Assessments assists local governments in the professional administration of property tax programs and provides data processing services for assessment and tax billing. In accordance with state statutes governing reappraisal, the division monitors county visual inspection and reappraisal programs, provides technical assistance to counties during reappraisal programs, and performs current value updating programs. In addition, the division performs biennial appraisal ratio studies, updates property ownership

map originals, develops and conducts educational and training courses for assessment officials, and assists the State Board of Equalization in maintaining the Assessor Certification Program. The division also administers the Property Tax Relief Program for the low income elderly or disabled homeowner as well as the disabled veterans. The division's mission is to make government work better to improve the quality of life for all Tennesseans by ensuring superior administration of the property tax system.

State Board of Equalization

The State Board of Equalization is a quasi-judicial and policy-making body responsible for the review and equalization of property tax assessments; the promulgation of assessment guidelines, rules, and manuals; and the professional education and training of assessment officials. The board's duties further include hearing and acting on appeals relating to property tax assessments from the Office of State Assessed Properties (public utilities) and the county boards of equalization, reviewing certified tax rates, and reviewing applications for various property tax exemptions.

Offices of Research and Education Accountability

The Office of Education Accountability monitors the performance of Tennessee's elementary and secondary school systems and provides the General Assembly reports on a variety of education topics. The office assists the House and Senate education committees as requested and provides the legislature an independent means to evaluate the effects of increased expenditures in education. The office also serves as a general resource for the General Assembly on national education trends.

The Office of Research conducts research projects on state and local government issues at the request of the Comptroller and the General Assembly. The office also assists the State Funding Board in analyzing the annual economic forecast prepared by the Center for Business and Economic Research. The office assists the Comptroller with preparation of fiscal notes for the Fiscal Review Committee, monitors legislation, and analyzes the budget. The Office of Research has also helped provide general staff support to a number of special legislative committees and commissions.

Office of State Assessed Properties

The Office of State Assessed Properties is responsible for the annual appraisal and assessment of all public utility and transportation properties as prescribed in Section 67-5-1301, *Tennessee Code Annotated*. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes. The Office of State Assessed Properties has been given the task of administering the telecommunication ad valorem tax reduction fund. Also, the office audits the companies under the Comptroller's assessment jurisdiction to ensure compliance with the filings on the ad valorem tax reports.

Authority for Post-Audit

The General Assembly created the Department of Audit in 1937. Authority to audit state and county governmental entities is contained primarily in Section 4-3-304, *Tennessee Code Annotated*. The department is required to

perform currently a post-audit of all accounts and financial records of the state government . . . in accordance with generally accepted auditing standards and . . . such procedures as may be established by the comptroller . . .

make annually, and at such other times as the general assembly shall require, a complete report on the post audit . . .

certify to the fund balance sheets, operating and other statements, covering the condition of the state's finances, as prepared by the department of finance and administration, or by the state treasurer, before publication of such statements . . .

serve as a staff agency to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances . . .

make annually an audit of all the records of the several counties of the state . . .

perform economy and efficiency audits, program results audits and program evaluations . . .

require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller of the treasury and . . . be prepared in accordance with standards established by the comptroller . . .

require that all persons, corporations or other entities who receive grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller . . .

Statutory authority to perform limited reviews of state governmental entities, usually called Sunset performance audits, is provided by Section 4-29-101 et seq., *Tennessee Code Annotated*.

All municipalities are required to have annual audits as provided in Section 6-56-105, *Tennessee Code Annotated*. Sections 7-82-401, 9-3-111, and 49-2-112 require that all utility districts, school activity and cafeteria funds, and various municipal enterprises that handle public funds be audited annually.

Audit Standards	Sections 4-3-304 and 6-56-105, <i>Tennessee Code Annotated</i> , give the Comptroller responsibility for ensuring that the audits of counties and municipalities are prepared in accordance with generally accepted government auditing standards and other minimum standards established by the Comptroller.
Audit Follow-up	Section 8-4-109, <i>Tennessee Code Annotated</i> , requires a follow-up of audits of state departments, agencies, and institutions. Audited entities are required to respond to audit findings and recommendations, within six months after the release of the audit report, concerning the effective and efficient management of accounts, books, records, or other evidence of financial transactions. If state entities fail to implement audit recommendations within a reasonable time or fail to provide other reports required by this statute, the Comptroller is required to notify the chairmen of the Senate and House Finance, Ways and Means Committees.

Department of Audit

The Department of Audit comprises three divisions—State Audit, County Audit, and Municipal Audit—and employs approximately 300 people. Each division is administered by a director. The three directors are responsible for coordinating the audit function within the department and for addressing concerns and issues in auditing.

The Department of Audit is a post-audit agency. As such, it audits an entity's financial statements; an entity's compliance with applicable statutes, rules, and regulations; and/or its past record of efficiency and effectiveness at the end of a fiscal period.

The basic purpose of post-audits is to identify and report past errors and recommend future improvements. Pre-audits, in contrast to post-audits, are performed within an entity by its own employees to prevent errors, detect problems, and suggest improvements. The most important distinction between pre-audits and post-audits is that post-audits are organizationally independent of the audited entity. In this respect, a post-audit agency in government is comparable to an independent public accounting firm in the private or business sector.

Because independence is so important in a post-audit agency, the Department of Audit is in the legislative branch of state government. The department is accountable to the General Assembly and provides information to assist the legislature in overseeing the use of public funds and the efficient operation of government.

The department's professional staff perform a wide variety of audit work requiring different types of training and experience. Therefore, members of the staff have degrees in fields such as accounting, public administration, information systems, law, political science, criminal justice, education, and nursing. More than 40 of the professional staff have advanced degrees. The department encourages its employees to pursue professional certifications such as Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. As of June 30, 2003, 164 employees of the department had received one or more professional certifications. The appendix identifies those employees who passed a certification exam during the year ended June 30, 2003, and also includes a list of all employees holding professional certifications. This range of experience gives a broad perspective to the department's audit work.

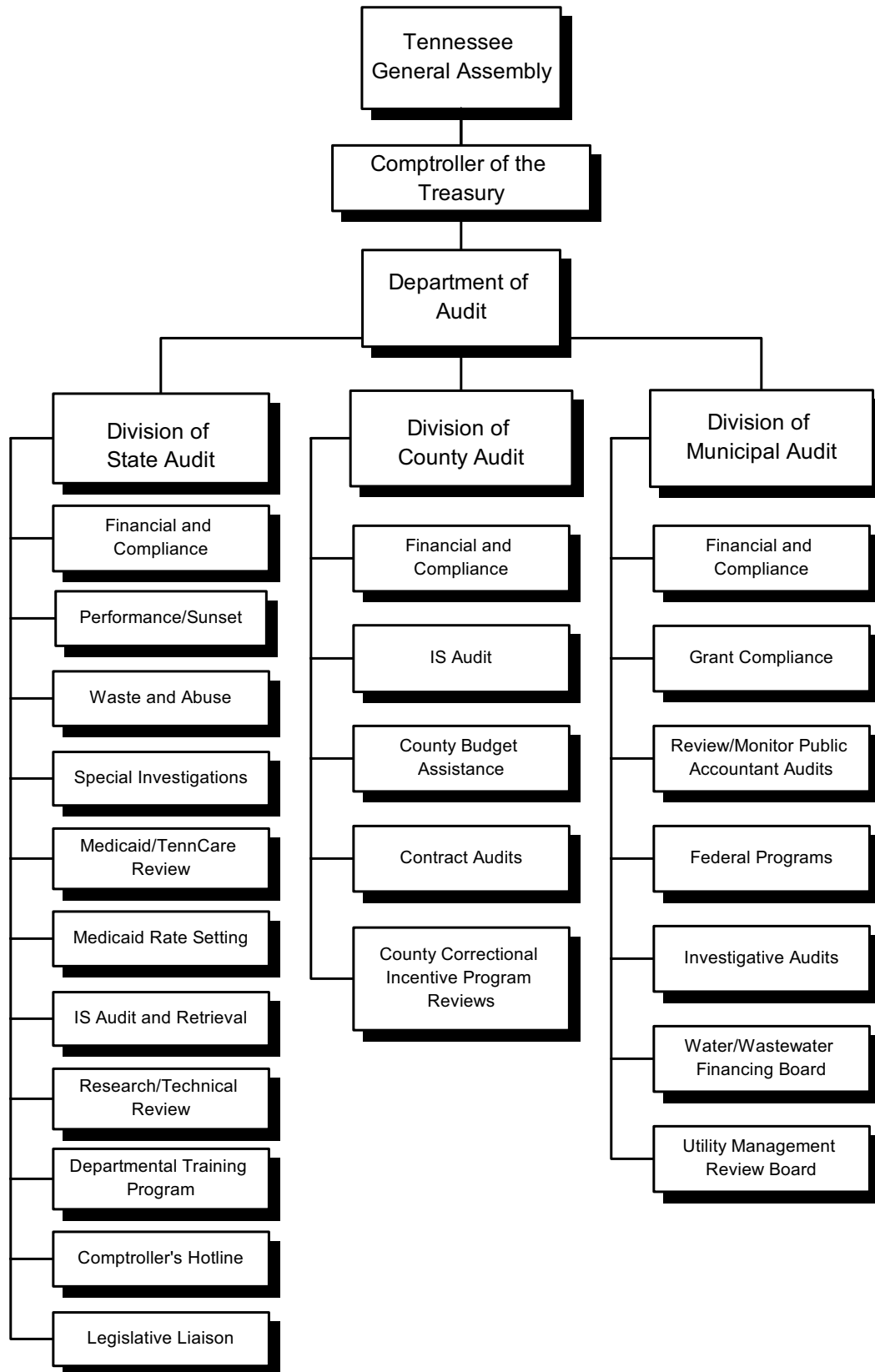
Members of the staff also participate in the following professional organizations:

- American Institute of Certified Public Accountants
- American Society for Public Administration

- Association of Government Accountants
- Information Systems Audit and Control Association
- Government Finance Officers Association
- Institute of Internal Auditors
- Association of Certified Fraud Examiners
- Tennessee Government Finance Officers Association
- Tennessee Society of Certified Public Accountants
- National Association of State Auditors, Comptrollers and Treasurers

Participation includes attending and contributing to annual meetings, serving as officers, and sitting on committees and project task forces.

Department of Audit



Improving the Audit Process

The Comptroller of the Treasury and the Department of Audit strive to preserve the integrity and improve the quality and usefulness of the audits of governmental entities and grant recipients at all levels. To accomplish this goal, the department works closely with state and national organizations and professional associations concerned with governmental accounting, auditing, and financial reporting.

Richard V. Norment, Assistant to the Comptroller for County Audit, is a past national president of the Association of Government Accountants and is a member of the National Board of Directors. Mr. Norment is a member of the Government Finance Officers Association's (GFOA's) Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting program and is a member of the Executive Committee and Chair of the Program Committee of the Southeastern Intergovernmental Audit Forum, and Co-Chair of the Program Committee of the 2004 Biennial National Intergovernmental Audit Forum.

Arthur L. Alexander was appointed Director of the Division of County Audit in October 2003 after 34 years of service in the division. A Certified Government Financial Manager, he is a member of the Government Finance Officers Association and the Association of Government Accountants (AGA), and he has served as president of the Nashville AGA chapter and as regional AGA Vice President.

Arthur A. Hayes, Jr., Director, Division of State Audit, is the past chair of the National State Auditors Association's Human Resources Committee and the Audit Standards and Reporting Committee. He is a member of the Program Committee of the Southeastern Intergovernmental Audit Forum. In addition, Mr. Hayes is a member of the Professional Advisory Council of the School of Business, Tennessee State University, and a former member of the Executive Board of the Government Finance Officers Association of the United States and Canada (GFOA). He is a board member at large of the Middle Tennessee Chapter of the Association of Certified Fraud Examiners and serves as the training director. Both a certified public accountant and a licensed attorney, Mr. Hayes is a member of the Association of Government Accountants, the American Board of Forensic Examiners, and the American Board of Forensic Accountants. He has authored numerous articles for auditing and accounting publications.

Dennis F. Dycus, Director, Division of Municipal Audit, serves as a Regent Emeritus of the Board of Regents of the Association of Certified Fraud Examiners, a faculty instructor for the association on a national basis, and is the current president of the Middle Tennessee Chapter. Mr. Dycus was the recipient of the association's Distinguished Service Award for his contribution to the detection and prevention of fraud. He was one of the first three members of the association to be designated as an Association Fellow in recognition

of his “outstanding achievements in and significant contributions and exceptional service to the field of fraud examination.” Mr. Dycus presently serves as a member of both the Accounting Advisory Council for the Gordon Ford College of Business at his alma mater, Western Kentucky University, and Middle Tennessee State University. He is also active as a member of the Tennessee Society of Certified Public Accountants, the American Institute of Certified Public Accountants, the Government Finance Officers Association, and the Association of Government Accountants. In 2003, he was the first-ever recipient of the Outstanding CPA in Government award presented by the Tennessee Society of CPAs. In addition, he has authored articles related to fraud for national publications.

Other staff serve in the following national organizations:

- National State Auditors Association
Performance Audit Committee—Deborah Loveless, Division of State Audit
Quality Control Review Committee—Deborah Loveless
Single Audit Committee—Gerry Boaz, Division of State Audit
Electronic Government Committee—Dan Willis, Division of State Audit
Auditor Training Committee—Dan Willis
Audit Standards and Reporting Committee—Gerry Boaz
- Government Finance Officers Association
Special Review Committee—Barbara White, Gerry Boaz
Committee on Accounting, Auditing and Financial Reporting—Gerry Boaz
- National Association of Government Accountants
Nominating Committee—Barbara White
Website Committee—Dan Willis

Accounting and Financial Reporting Standards

The Governmental Accounting Standards Board (GASB) has been the authoritative accounting and financial reporting standard-setting body for state and local governmental entities since June 1984. The Division of State Audit’s technical analyst attends the board’s meetings as an observer and writes and distributes a report to members of the National Association of State Auditors, Comptrollers, and Treasurers.

Like its commercial-sector counterpart, the Financial Accounting Standards Board, the GASB operates under the auspices of the Financial Accounting Foundation and is located in Norwalk, Connecticut. As of June 30, the GASB had issued 41 authoritative standards, two concept statements, six interpretations, and ten technical bulletins, as well as several exposure documents from which standards are developed.

Generally Accepted Government Auditing Standards

The Department of Audit performs its audits in accordance with government auditing standards generally accepted in the United States of America as set forth by the Comptroller General of the United States in *Government Auditing Standards* (Yellow Book).

These standards apply to financial and performance audits. The Yellow Book incorporates the generally accepted auditing standards for field work and reporting and attestation standards set forth by the American Institute of Certified Public Accountants.

The Department of Audit conducts its single audit in accordance with the Single Audit Act as amended by the 1996 Single Audit Act amendments and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Quality Control Review

The department internally monitors the quality of audit work through its Quality Control Review Committee, composed of senior staff from each of the department's three divisions. The quality control review consists of three phases:

- Review of policies and procedures
- Review of compliance with professional standards and departmental policies and procedures
- Review of compliance with *Working Paper Techniques*

The Quality Control Committee conducts a review of the department's policies and procedures biennially. An Audit Review Subcommittee is appointed biennially to review audits to determine whether the department has complied with professional standards and departmental policies and procedures. This Audit Review Subcommittee consists of audit managers and senior auditors who serve on a rotating basis. This review is similar to the external quality control review program used by the National State Auditors Association. Quarterly, the Quality Control Committee appoints a Working Paper Review Subcommittee. This committee consists of senior auditors who serve on the committee on a rotating basis to review the department's compliance with *Working Paper Techniques*. The results of the committee's reviews are communicated to all managerial personnel in the department.

In addition to the Quality Control Review Committee, each division has an established process whereby each audit is reviewed prior to release for adherence to the standards. The department also undergoes an external review of its quality control system. Section 8-4-102, *Tennessee Code Annotated*, states:

Previous to the convening of each biennial general assembly, the speaker of the senate and the speaker of the house jointly may contract for the services of an independent public accounting firm to audit or review the operations of the office of the comptroller, or may call upon the director of the division of state audit to review with them a current audit of the comptroller of the

treasury. The speakers may appoint a committee of the general assembly for the purpose of such review.

The Speakers directed the Department of Audit to undergo a quality assessment review under the auspices of the National State Auditors Association. The most recent review was performed in August 2002 by certified public accountants and other professionals holding executive-level posts in federal and state governments. The purpose of the review was to ensure that the department is meeting its responsibility to perform audit work in accordance with government auditing standards generally accepted in the United States of America.

The report of the quality assessment review for the year ended June 30, 2002, rendered an unqualified opinion on the department's system of quality control. In the opinion of the quality assessment team, "the Department of Audit's system of quality control for audits issued from July 1, 2001, through June 30, 2002, was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards." The next quality assessment review is scheduled for August 2004.

Training

The Department of Audit ensures its auditors receive the required continuing professional education to meet certification standards and *Government Auditing Standards*. Auditors participate in the department's in-house training program as course developers, presenters, and participants. Volunteer instructors from throughout the department present some 30 courses in the department's in-house program. These courses range from "Auditing for Fraud" to "Computer Forensics" to "Audit Command Language."

The department's commitment to training extends to auditors and accountants throughout state government. Therefore, many of the in-house classes are open to other agencies, and one or more seminars open to state accounting and auditing personnel are held each year.

All training is offered with the assistance of the Department of Audit Advisory Committee on Training, whose members represent all divisions and sections of the department. The 14 members are volunteers who work to improve the training program by surveying the staff's training needs, suggesting new classes, recommending ways to improve existing classes, and upgrading program administration. The training coordinator chairs the committee.

For the twenty-second year, the Department of Audit and the National Association of State Auditors, Comptrollers, and Treasurers cosponsored the annual Governmental Auditor Training Seminars for public accounting firms performing governmental audits in Tennessee. The seminars were held in Cleveland, Jackson, Morristown, and Nashville.

Local Representation in Professional Organizations

The Department of Audit fully supports its staff's active participation in local professional organizations, recognizing that these organizations contribute to the staff's continued growth.

The department plays a significant role in the activities of the Nashville Chapter of the Association of Government Accountants. Department of Audit staff hold the following offices:

County Audit

Jim Arnette	Immediate Past-President
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State Audit

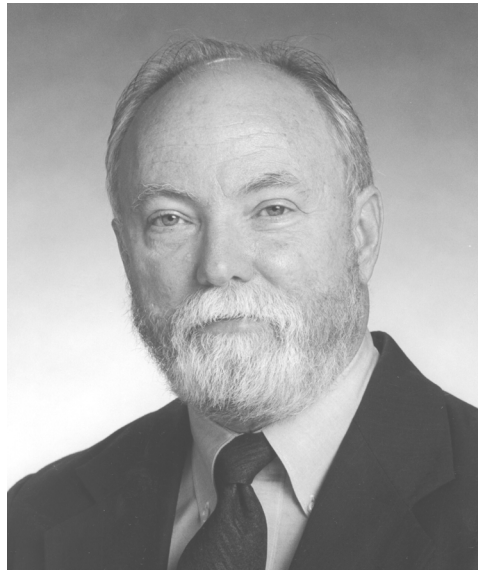
Mason Ball	Chair, Education Committee
Gerry Boaz	Chair, Certified Government Financial Management Committee
Nichole Curtiss	Chair, Newsletter Committee
Tammy Farley	Chair, Community Service Committee
Jennifer McClendon	Chair, Early Careers Committee
Beth Pendergrass	Director
Suzanne Smotherman	Secretary
Tammy Thompson	Co-Chair, Meetings and Attendance Committee
Dan Willis	Chair, Internet Committee

In addition to holding top offices, department staff are well represented in the Nashville chapter's organization, serving on almost every committee.

Staff from the Department of Audit are also active in the Middle Tennessee Chapter of the Association of Certified Fraud Examiners. Brent Rumbley of State Audit is treasurer for the chapter, and Lewis Robbins of the Division of Municipal Audit is chairman of the Website Committee. Dennis Dycus of the Division of Municipal Audit is the chapter president, chairman of the Library Committee, and former member of the Board of Regents.

Deborah Loveless, Division of State Audit, is a director of the Tennessee Chapter of the American Society for Public Administration.

Division of State Audit



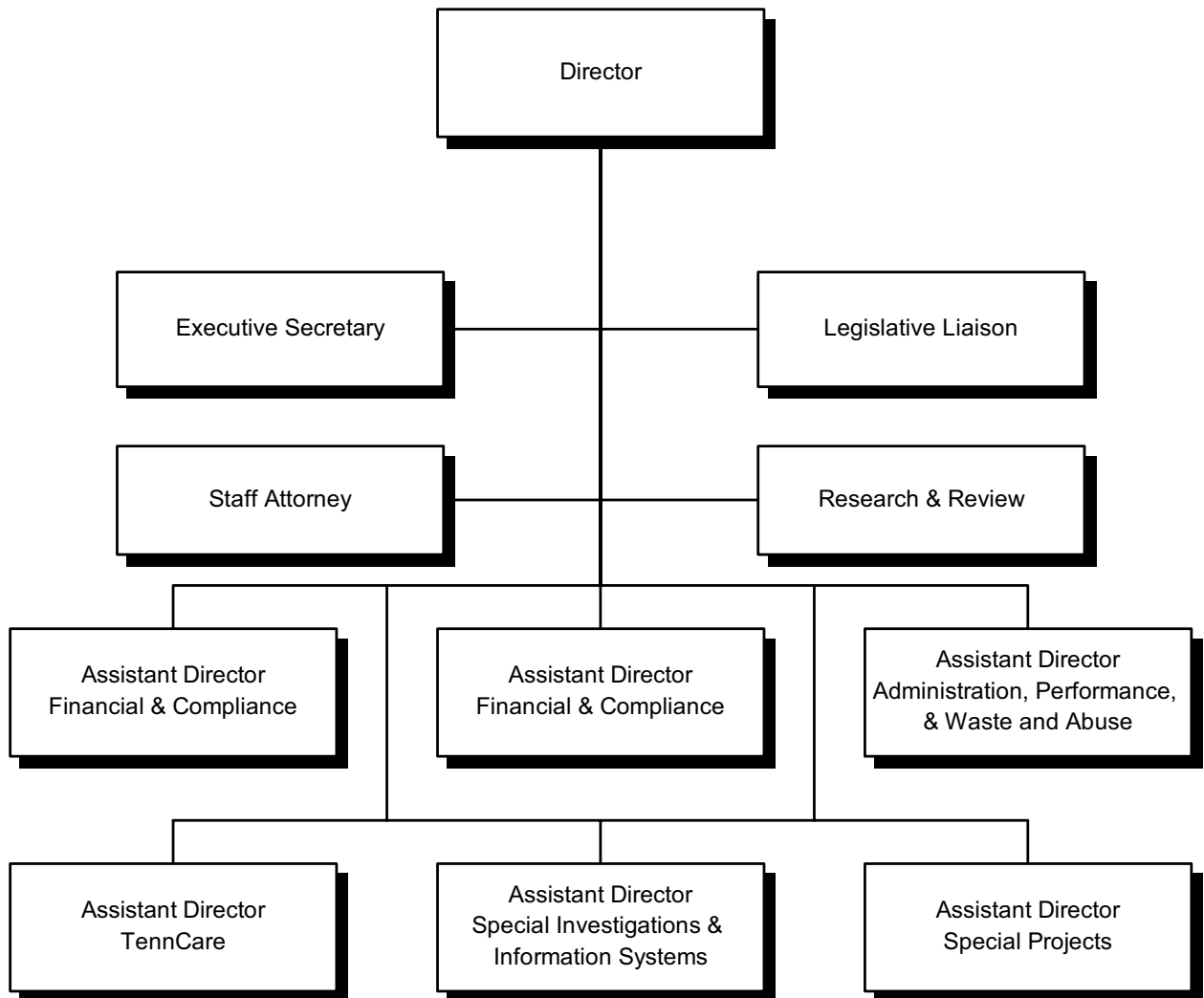
**Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA
Director**

The Division of State Audit conducts financial and compliance audits, performance audits, and investigations. It also performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state's financial condition and the performance of the state's many agencies and programs. This division thus aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. In fulfilling this audit function, the division issued 88 reports during the year ended June 30, 2003; an additional 83 audits and special investigations were in progress at June 30, 2003.

This division includes six sections: financial and compliance, TennCare, performance, waste and abuse, special investigations, and information systems. Highlights of the work each section performed from July 1, 2002, through June 30, 2003, are presented in this chapter. Complete reports are available upon request or on the Internet at www.comptroller.state.tn.us/sa/reports/index.html.

In addition to auditing, the division reviews and comments on exposure drafts from professional organizations and conducts technical research and training. The division also assists the Comptroller in the formulation of state policy and regulations, either directly by consulting with representatives of state agencies or indirectly by submitting comments about proposed policies and procedures.

Division of State Audit



Financial and Compliance



Charles K. Bridges, CPA, CGFM
Assistant Director



Edward Burr, CPA, CGFM
Assistant Director

This section conducts financial and compliance audits of all state departments, agencies, and institutions.

A major endeavor of the financial and compliance section was the *Single Audit of the State of Tennessee* for the year ended June 30, 2002. This audit covered the operations of the state as a whole and was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. A significant part of this project was the audit of the *Tennessee Comprehensive Annual Financial Report*, which covers all the state's funds, account groups, and component units, including colleges and universities.

In addition to the single audit report, separate audit reports were issued on the Department of the Treasury, the Office of the Comptroller of the Treasury, departments administering major federal programs, and units of the government not subject to the control of the centralized accounting system: state universities, community services agencies, the Tennessee State School Bond Authority, the Tennessee Local Development Authority, the Tennessee State Veterans' Homes Board, and the Tennessee Housing Development Agency. The smaller departments and agencies of the government and the community colleges are audited on a biennial cycle.

The separate audits of the departments, agencies, and institutions are not meant to serve as organization-wide audits as described in the Single Audit Act as amended in 1996 and Office of Management and

Budget Circular A-133. They do, however, serve as segments of the organization-wide audit of the State of Tennessee; therefore, they include the necessary tests for compliance with applicable laws, regulations, contracts, and grant agreements and the required consideration of the internal control.

All financial and compliance audits are conducted in accordance with government auditing standards generally accepted in the United States of America. The section performs the following general procedures as part of the financial and compliance audit process:

- Reviews the working papers from previous audits and applicable regulations, rules, policies, procedures, laws, and legal opinions.
- Considers the internal control at the entity, including a review of information systems, and determines the nature, timing, and extent of tests to be performed.
- Reviews the original budget and subsequent budget revisions and compares them to actual revenues and expenditures.
- Obtains and analyzes explanations for significant variances.
- Reviews the internal control in the computerized accounting and management information systems.
- Tests to determine the appropriateness of expenditures and the entity's accountability for revenues and cash receipts.
- Tests to substantiate assets, liabilities, and fund balances.
- Reviews federal and state grants to determine the entity's accountability for grant funds and compliance with applicable laws, rules, and regulations.
- Reviews management's representations regarding financial transactions, supporting accounting data, and other disclosure items.
- Evaluates all evidence obtained during the audit process in order to formulate an opinion on the financial transactions and to prepare findings on significant problems.

Results of Audits

During the year ended June 30, 2003, the division published 72 financial and compliance audit reports containing 150 audit findings and issued opinions on 53 sets of financial statements. On June 30, another 47 audits were in progress. The following are summaries of some of the published audit reports.*

*Findings repeated from prior audits are marked with an asterisk.

Single Audit of the State of Tennessee

The Single Audit of the State of Tennessee for the year ended June 30, 2002, was conducted in accordance with Office of Management and Budget (OMB) Circular A-133. The *Single Audit Report* reflected federal awards of over \$8.1 billion. The results of the audit of compliance of the State of Tennessee with the compliance requirements applicable to each of the state's major federal programs indicated that the State of Tennessee did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions that are applicable to its Medicaid Cluster. In addition, the results of the audit indicated that the State of Tennessee did not comply with requirements regarding Monitoring that are applicable to its Emergency Food Assistance Cluster, and requirements regarding Program Income that are applicable to its Child Support Enforcement program.

Noncompliance with the aforementioned requirements applicable to the Medicaid Cluster was also considered to be material to the general-purpose financial statements of the State of Tennessee. The results of auditing procedures also disclosed other instances of noncompliance with compliance requirements applicable to major federal programs that are required to be reported in accordance with OMB Circular A-133.

As a result of testing the state's compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs, costs of \$8,453,354 were questioned for the year ended June 30, 2002.

The consideration of internal control for the State of Tennessee disclosed numerous reportable conditions, including several that were considered to be material weaknesses in relation to the state's general-purpose financial statements and/or major federal programs.

The single audit included an audit of the state's general-purpose financial statements. This audit resulted in an unqualified opinion on the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2002. The audit also determined that the Schedule of Expenditures of Federal Awards was fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

State Departments and Agencies

Tennessee Commission on Aging and Disability
For the Years Ended June 30, 2001, and June 30, 2000

Requirements of Financial Integrity Act Were Not Met

The commission did not submit the required letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, for fiscal years ending in 2001, 2000, and 1999.

Alcoholic Beverage Commission

For the Years Ended June 30, 2001,
and June 30, 2000

Controls Over Cash Receipts Need Improvement

A review of procedures for processing and recording cash receipts revealed that deposits were not always made timely, not all incoming revenue was receipted, and there was no independent reconciliation of the receipt records.

Controls Over the Alcohol Server Training Program Need Improvement

The commission did not require any of the licensees conducting alcohol server training to post an indemnity bond. Also, documentation related to server permits was not always maintained on file.

Tennessee Arts Commission

For the Years Ended June 30, 2001,
and June 30, 2000

Artifacts Inventory Policies and Procedures Are Not Adequate

The Tennessee State Museum's policies and procedures do not require an annual inventory of artifacts, and no such inventory was taken during the audit period.

The Commission Did Not Comply with the Financial Integrity Act

The commission did not comply with the Financial Integrity Act by submitting required letters acknowledging responsibility for maintaining the internal control system.

The Commission Does Not Have Internal Controls Over the Accounting and Expenditure of Funds from the Sale of New Specialty Earmarked Vehicle Registration Plates

The commission does not have an effective internal control system in place to ensure compliance with Section 55-4-215, *Tennessee Code Annotated*, which prescribes requirements for the distribution of revenue from the sale of new specialty earmarked vehicle registration plates.

Federal Funds Not Drawn Down Timely*

The commission did not draw down federal funds timely as required by the Department of Finance and Administration's Policy 20. The commission drew down funds twice in each fiscal year, not monthly, as the policy requires.

Department of Children's Services

For the Year Ended June 30, 2002

Children's Services Inappropriately Requested and Received Reimbursement of \$393,075 From TennCare for Children Not Eligible for TennCare Services*

As noted in the prior five audits, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. In addition, as noted in the prior three audits, Children's Services is also billing for children not in state custody and children in state custody but on runaway status. In addition, as noted in the prior two audits, there were problems with billings for hospitalized children, and as noted in the prior audit, for targeted case management services not provided.

Case Files Do Not Contain Adequate Documentation*

As noted in the prior three audits, the department did not have adequate documentation in each child's case file showing case manager contact with the child, family, or other individuals. In 7 of 115 case files tested (6%), there were gaps in time between case recordings documenting case manager contacts. Time lapses between entries in case notes ranged from 37 to 195 days. Additionally, case information was not added to the file in a timely manner, and documentation of permanency planning hearings and background checks for foster parents were not maintained in case files.

Adoption Assistance Files Did Not Contain Adequate Documentation

Adoption assistance files did not contain adequate documentation related to renewal affidavits, applications, and agreements. The reasons why parents continued to receive adoption assistance payments beyond the 18th birthday were not documented. Adoption assistance and foster care payments were made to two households at the same time for one child.

The Department Charged the Title IV-E Program for Children Who Were Not Eligible for Title IV-E Reimbursement

During a review of 115 children's case files, it appeared the department received Title IV-E funds for four children (3%) during periods when they were not IV-E reimbursable.

Foster Care Recruitment Purchases Did Not Comply With State Laws

The department purchased goods and services totaling approximately \$150,000 for foster care recruitment before requesting the approvals necessary to incur the expenditures and did not comply with state laws and regulations governing the procurements.

The Department Created a Fiscal Agent Relationship With the Memphis and Shelby County Community Services Agency

The department concealed the questionable procurement of goods and services by using the Memphis and Shelby County Community Services Agency as a fiscal agent to pay for those goods and services.

The Department Established Improper and Ineffective Employer-Employee Relationships*

As noted in the prior four audits, Children's Services contracts with community services agencies (CSAs) to assist in implementing various state programs. Through these contracts, state officials directly supervise CSA employees.

The Department Did Not Perform Reconciliations Related to Trust Fund Accounts of Children Receiving Federal Benefits and Did Not Return Funds to the Social Security Administration Timely*

As noted in the prior four audits, the department did not perform reconciliations related to Social Security trust funds and did not return funds to the Social Security Administration timely.

Uncollected Overpayments Due From Foster Care and Adoption Assistance Parents Totaled at Least \$1,130,327*

As noted in the eight previous audits, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents.

Department of Commerce and Insurance

For the Years Ended June 30, 2001, and June 30, 2000

Documentation of Manufactured Housing Inspections Is Insufficient*

The Codes Enforcement section of the Division of Fire Prevention did not enforce federal and state policies and procedures for documentation of manufactured housing inspections.

The Consumer Affairs Division Should Improve Compliance With Policies and Procedures*

The division is not sending letters to respondents timely or properly documenting closed complaints as specified in its policies and procedures.

Tennessee Consolidated Retirement System

For the Year Ended June 30, 2002

The Tennessee Consolidated Retirement System (TCRS) Should Strengthen Controls for Preventing, Detecting, and Collecting Overpayments to Deceased Persons*

TCRS procedures do not require sufficient evidence to refute a death match. In addition, TCRS did not comply with written procedures regarding the approval of accounts receivable forms.

Tennessee Corrections Institute

For the Period July 1, 2000, Through January 31, 2003

Weak Controls Over Equipment

Audit procedures performed on the institute's property listing and equipment purchases during the audit period revealed weaknesses in controls.

Local Correctional Facilities Not Inspected*

The institute did not perform annual inspections at all facilities.

Department of Education

For the Year Ended June 30, 2002

The Department Needs to Improve Areas of Deficiency and Noncompliance Over Subrecipient Monitoring

The department has not assigned accountability to ensure that corrective action is taken on findings from audits of subrecipients performed in accordance with OMB Circular A-133. In addition, a lack of internal control was noted during the monitoring testwork for the Innovative Education Program Strategies program. Also, the department did not communicate to subrecipients the Catalog of Federal Domestic Assistance number for the Innovative Education

Program Strategies, Class Size Reduction, and Vocational Education-Basic Grants to States programs.

Composition of the Advisory Council for the Education of Students With Disabilities Was Not in Compliance With State Law

The majority of the members of the Advisory Council for the Education of Students with Disabilities were not individuals with disabilities or parents of children with disabilities as required by Section 49-10-105, *Tennessee Code Annotated*.

The Qualified Zone Academy Bond Program Does Not Have Adequate Controls

There are no written procedures outlining the responsibilities concerning the administration of the Qualified Zone Academy Bond Program. In addition, the controls over the program are inadequate.

Department of Environment and Conservation

For the Years Ended June 30, 2001, and June 30, 2000

Access to the State's Computer Applications Not Adequately Limited

The department does not adequately limit access to the Property of the State of Tennessee (POST) system, which is used to account for the state's equipment other than vehicles; the Tennessee On-Line Purchasing System (TOPS), which is used to process purchase orders; and the State Employee Information System (SEIS), which is used to process personnel actions.

Weak Controls Over Cash Receipts at the State Parks*

The department does not have adequate controls over cash-receipting procedures at the following state parks visited: Cumberland Mountain, Fall Creek Falls, Paris Landing, and Pickwick Landing.

Free Meal Policy Not Followed at Paris Landing State Park

Some park employees received free meals, although their job duties did not entitle them to free meals according to departmental policies.

Requirements in the Agreements for Leased Operations Not Enforced

Fall Creek Falls State Park did not enforce all requirements of the lease agreements for its leased operations. In some cases, late fees were not assessed, and in other cases, the operator was permitted to pay less than the agreed-upon amount.

Controls Over Inventories at State Parks Need Improvement

For some inventories at Paris Landing and Pickwick Landing state parks, the custodian of the inventory was authorized to make adjustments to the inventory balance without any oversight. Also, at Fall Creek Falls State Park, an employee purchases and receives the entire inventory for the restaurant.

Proper Purchasing Procedures Not Followed*

At Cumberland Mountain, Fall Creek Falls, Paris Landing, and Pickwick Landing state parks, some purchases were not made in

accordance with the state's purchasing guidelines. Some of these purchases should have been made from a statewide contract. For other purchases, the park should have obtained competitive bids.

Controls Over Equipment Need Improvement*

The department did not always remove lost or stolen items from POST or report them to the Comptroller of the Treasury timely. For some equipment items tested, the location and serial number shown in POST were not correct. One item tested could not be found.

Financial Responsibility Rules Not Enforced*

The Division of Underground Storage Tanks does not enforce its rules requiring tank owners or operators to demonstrate financial responsibility for cleanup costs associated with petroleum leaks.

Controls Over Underground Storage Tank Fund Expenditures Need Improvement*

The Division of Underground Storage Tanks does not routinely inspect cleanup sites or perform field audits of contractors' invoices. Also, the division is not processing requests for reimbursement timely.

Proper Accountability Over Certain Fixed Assets Not Established

Assets transferred to the department when the Tennessee Elk River Development Agency was dissolved have not been recorded in the state's inventory systems.

Cash Receipting and Collection Procedures for the Environmental Divisions Need Improvement*

There is no independent reconciliation of the ledgers or databases, listings of checks, and deposit slips. For the Radiological Health program, fee payments could not always be traced to the ledgers used to track customer payments. In the Division of Underground Storage Tanks, some receipt books could not be located. Also, the Division of Water Pollution Control did not exert sufficient effort to collect delinquent permit fees.

Weak Controls Over Cash Receipts at the Environmental Assistance Centers

Cash receipting duties were not always adequately segregated, and proper cash handling procedures were not always followed.

Weak Controls Over Cash Receipting at the Fleming Training Center

The duties involved in the cash-receipting process at the center were not adequately segregated.

State Policy on Providing Housing to Employees Not Followed*

The department only submitted one housing plan to the Department of Finance and Administration (F&A) during the audit period. The department prepared another plan but never submitted it to F&A.

Neither plan was filed with the Division of State Audit. Three employees received a housing allowance but were not shown on the housing plan. For two employees tested, there was no documentation on file to indicate that their housing allowances had been approved. Two employees shown in the housing plan as being assigned state housing also received a housing allowance. Three rangers who were used for temporary assignments across the state received a housing allowance, although they were not required to live in close proximity to their assignment.

**Office of the Executive
Director of the District
Attorneys General
Conference**

For the Years Ended June 30, 2001,
and June 30, 2000

Offices of the District Attorneys General Do Not Maintain Adequate Leave Records and Allow Employees to Take Unearned Leave*

In many districts, time sheets or equivalent records of attendance are not maintained. As a result, at least 56 overpayments for leave taken totaling \$10,482.65 were made during the audit period.

A Lack of Adequate Internal Control Has Resulted in Many Overpayments and Duplicate Payments to Vendors*

As a result of not requiring verification of receipt of goods, the conference issued many duplicate payments and overpayments to vendors for goods and services. During the audit period, there were 75 known overpayments and duplicate payments totaling \$26,959.76.

Controls Over Purchasing Are Inadequate

Written purchasing policies and procedures do not exist for items under \$1,000. In addition, the conference office and several individual district offices have inadequate segregation of duties over the purchasing function.

Controls Over Equipment and Leased Office Space Were Inadequate*

The conference does not have adequate control over or accountability for equipment and leased office space. Many equipment items could not be located, were not properly tagged, or were not listed correctly on the Property of the State of Tennessee (POST) listing. Also, the conference office makes lease payments on arrangements for which a lease agreement has not been formalized.

ISSUES FOR LEGISLATIVE CONSIDERATION

Numerous Funding Sources of the District Attorneys General

As noted in the last three audits, covering the period July 1, 1993, through June 30, 1999, the various sources providing funding to the district attorneys general increase the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. This situation created the opportunity for a former district attorney general and his assistant to misdirect public funds into a private bank account for their personal use.

These matters were reported in the audit report for the conference for the years ended June 30, 1995, and June 30, 1994. In that audit, we reported that in the Thirtieth Judicial District (Shelby County), the former district attorney general submitted travel claims to the state and improperly retained \$15,222.63 for expenses that the county had paid and that he had not personally incurred and was not owed. In addition, a former assistant district attorney general submitted travel claims to the state and improperly retained \$2,520.83 for expenses that the county had paid and that she had not personally incurred and was not owed.

These underlying conditions have not been corrected. The officials responsible for approving payments at the state and county levels still do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should determine if the various funding sources should continue to be maintained by various governments, with no mechanism to verify that only one source has submitted a claim for reimbursement, or whether the conference should be fiscal officer for sources of funds of all the district attorneys general.

Salary Supplements for State District Attorneys General Employees and County Funding of District Offices

Currently, the payment of salary supplements to district attorneys general and their staff is handled differently by the counties providing the supplements. Some counties pay the supplement directly to the employee through the county payroll, while others pay the supplement to the conference office, which pays the supplement to the employee through the state payroll system. The General Assembly should determine if its legislative intent was for Fraud and Economic Crime funds and county appropriations to be used to supplement the salaries of individuals employed by offices of certain district attorneys general. If the salary supplements are considered appropriate, the General Assembly should then consider requiring all salary supplements for the district attorneys general and their staff to be remitted to the state and then paid through the state payroll system.

Department of Finance and Administration

Including TennCare

For the Year Ended June 30, 2002

Top Management Still Has Failed to Address TennCare's Administrative and Programmatic Deficiencies*

The audit revealed many serious internal control deficiencies that have caused or exacerbated many of the TennCare program's problems.

Internal Control Over TennCare Eligibility Is Not Adequate*

As noted in the seven prior audits, internal control over TennCare eligibility is not adequate. TennCare has inadequate staff to verify information on uninsurable applications and does not verify information on the applications for individuals losing Medicaid. In addition, there are ineligible enrollees on TennCare.

TennCare Did Not Recover Fee-For-Service Claims Paid to Providers and Used Federal Matching Funds for Capitation Payments Paid to Managed Care Organizations for Deceased Individuals Including Those Who Had Been Dead for More Than a Year*

For the fifth consecutive year, TennCare did not recover capitation payments made to managed care organizations for deceased individuals (who had been dead for more than a year), and for the second year, TennCare did not recover fee-for-service payments made for deceased enrollees; this has resulted in new federal questioned costs of \$207,499 and additional costs to the state of \$118,479.

TennCare Management Information System Lacks the Necessary Flexibility and Internal Control*

Management of the Bureau of TennCare has not adequately addressed critical information system internal control issues. This has contributed to a number of other findings in this report.

Internal Control Over Provider Eligibility and Enrollment Was Not Adequate to Ensure Compliance*

TennCare had numerous internal control weaknesses and noncompliance issues related to provider eligibility and enrollment including inadequate provider agreements, not reverifying Managed Care Organization and Behavioral Health Organization providers, and not following departmental rules.

TennCare's Monitoring of the Payments for the \$850 Million Pharmacy Program Needs Improvement*

TennCare's monitoring of the pharmacy program payments, which exceeded \$850 million for TennCare enrollees who are both Medicare and Medicaid eligible as well as for behavioral health drugs, was inadequate.

TennCare Received Advertising Services Without Going Through the Required Procurement Process

The Bureau of TennCare improperly obtained advertising services by using a contract between the Department of Economic and Community Development; the Tennessee Film, Entertainment and Music Commission; and Akins and Tombras, Inc. This action circumvented the required competitive procurement process.

TennCare Did Not Require the Department of Human Services to Maintain Adequate Documentation of the Information Used to Determine Medicaid Eligibility*

TennCare did not require the Department of Human Services to maintain adequate documentation to support Medicaid eligibility information including income, resources, and medical expenses.

TennCare Does Not Have a Court-Approved Plan to Redetermine or Terminate the TennCare Eligibility of SSI Enrollees That Become Ineligible for SSI*

Because TennCare does not have a court-approved plan, TennCare does not redetermine or terminate the TennCare eligibility of Supplemental Security Income (SSI) enrollees that become ineligible for SSI. As a result, TennCare does not terminate SSI recipients unless the recipient dies, moves out of state and is receiving Medicaid in another state, or requests in writing to be disenrolled.

TennCare Paid the Department of Children's Services \$193,266 for Services That Are Covered by and Should Be Provided by Behavioral Health Organizations*

TennCare has paid the Department of Children's Services for services that should be provided by Behavioral Health Organizations.

TennCare Made Payments on Behalf of Full-Time State Employees, Resulting in Federal Questioned Costs of \$54,106 and an Additional Cost to the State of \$31,019*

TennCare paid \$85,125 in capitation payments on behalf of full-time state employees who are classified as uninsured or uninsurable in the TennCare Management Information System.

TennCare Reimbursed the Department of Children's Services for Unallowable Costs Resulting in Questioned Costs of \$241,287*

TennCare has paid the Department of Children's Services for ineligible incarcerated youth, unallowable leave days, and undocumented services. TennCare also inappropriately overrode system edits.

TennCare-Related Activities at the Department of Children's Services Were Not Adequately Monitored*

TennCare has not adequately monitored the Department of Children's Services. Although TennCare recognized the need for a strong monitoring effort and has contracted with the Office of Program Accountability Review to provide this service, the monitoring effort still needs improvement.

TennCare Unnecessarily Paid Administrative Leave With Pay for Employees Who Terminated Employment

TennCare unnecessarily paid administrative leave with pay to two employees who terminated employment, which is not in compliance with the Department of Personnel Policy.

The TennCare Bureau Continued to Operate Without an Approved Cost Allocation Plan*

The Bureau of TennCare has continued to operate without an approved cost allocation plan, which has prevented the collection of federal matching funds for indirect costs for the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled.

TennCare's Monitoring of the Medicaid Waiver for the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Was Not Adequate*

The TennCare Bureau's monitoring of the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled is inadequate to provide the federally required assurances of health and welfare and of financial accountability.

TennCare Has Not Ensured an Adequate Process Is in Place for Approval and Review of Services for the Medicaid Home and Community Based Services Waiver*

TennCare has not ensured that the Division of Mental Retardation Services appropriately reviews and authorizes the eligibility of and the allowable services for recipients under the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver and the Elderly and Disabled waivers.

TennCare's Monitoring of the Payments for TennCare Select Needs Improvement

The audit revealed that TennCare has not adequately monitored payments to Volunteer State Health Plan for services provided to TennCare Select enrollees.

TennCare Did Not Comply With the Special Terms and Conditions of the TennCare Waiver*

Management did not comply with 3 of 24 applicable special terms and conditions (STCs) of the TennCare Waiver, and controls over compliance with the STCs need improvement. Federal financial participation in the program is contingent upon compliance with the STCs.

The Tennessee Insurance System (TIS) Is Not Functioning Efficiently and Effectively*

TIS has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, changes are being made directly to the TIS database through a software program, necessitating manual reconciliations and adjustments.

The Division of Insurance Administration (DIA) Does Not Monitor the Claims Processed by Insurance Companies on Behalf of the State

DIA has not been monitoring claims processing by the insurance companies to ensure that only allowable claims are processed.

Control Over the Recording of Land in the Land Inventory System Needs Improvement

Due to a lack of a review system, land maintained on the Land Inventory System (LIS) was not always properly valued, and the number of acres did not calculate correctly.

Department of Financial Institutions For the Years Ended June 30, 2001, and June 30, 2000	Billing Practices and Examination Records Need Improvement The department's examination billing practices are not consistent, and there is inconsistent information in the department's examination records.
Department of General Services For the Years Ended June 30, 2001, and June 30, 2000	Controls Over Commercial Credit Cards Are Inadequate The department failed to maintain adequate controls over commercial credit cards. Receipts supporting invoices were not always maintained, payments were not always made in compliance with state law, and credit cards were not always properly used.
Department of Health For the Year Ended June 30, 2002	CFDA Numbers and Program Names Not Provided to Subrecipients The department did not inform subrecipients of all Catalog of Federal Domestic Assistance Numbers and federal program names. Department Circumvented State's Employment Process to Obtain Staffing Services* The department has used grant agreements with a nonprofit organization, community services agencies, and human resource agencies to obtain staffing services. Inadequate Contract Controls* The department did not approve contracts before the beginning of the contract period. Equipment Losses Not Reported Timely to Comptroller The department did not maintain proper accountability over its equipment and failed to notify the Office of the Comptroller of the Treasury of lost or stolen equipment timely.
Tennessee Health Facilities Commission For the Years Ended June 30, 2001, and June 30, 2000	Commission Did Not Comply With the Financial Integrity Act The report on internal accounting and administrative control and the two responsibility letters were not received by the Commissioner of Finance and Administration and the Comptroller of the Treasury, as required by state law.
Tennessee Housing Development Agency For the Year Ended June 30, 2002	Contract Administration Division Policies and Procedures Not Followed* The Section 8 Contract Administration Division did not follow its policies and procedures in the areas of management and occupancy reviews, processing rental adjustments, and certifying the accuracy of monthly Section 8 vouchers. Deposits and Repurchase Agreements Not Adequately Collateralized The agency did not properly monitor the bank balances or the repurchase agreements held at the trustee bank. As a result, bank

balances and repurchase agreements were undercollateralized during fiscal year 2002.

Checking Account Not Properly Reconciled

The checking account reconciliations were not performed properly or timely and were not properly reviewed during fiscal year 2002.

Escrow Subsidiary Ledger Not Reconciled

The agency did not reconcile the escrow subsidiary ledger to either the general ledger or the interest allocation spreadsheet used to allocate interest earned to individual properties.

Department of Human Services

For the Year Ended June 30, 2002

The Federal Cash Transaction Report Did Not Reconcile With the Schedule of Expenditures of Federal Awards, and Requests for Federal Funds Were Not Always Based on Actual Federal Disbursements

The amounts reported as disbursements on the Federal Cash Transaction Reports prepared by the department are not reconciled with the accounting records. Furthermore, such amounts did not reconcile with the amounts shown on the Schedule of Expenditures of Federal Awards (SEFA). In addition, the department does not always calculate federal receipt requests based on actual federal disbursements.

Inadequate Documentation of Eligibility Information for Temporary Assistance for Needy Families and Food Stamps*

The department does not maintain adequate enrollee eligibility documentation for the Temporary Assistance for Needy Families program and Food Stamps.

The Department Did Not Comply With Subrecipient Monitoring Policy

The department did not identify and report all of its subrecipients to the Department of Finance and Administration (F&A) as required by F&A Policy 22.

Inadequate Procedures for Ensuring That Vendors and Subrecipients File a Single Audit Report*

The department has not adequately maintained a listing of vendors and subrecipients who are required to file a single audit report with the department.

Temporary Assistance for Needy Families Assistance Is Not Being Reduced as Required by Federal Regulations*

The department did not reduce assistance to recipients who failed to cooperate with child support requirements.

Noncompliance With Child Support Enforcement Procedures*

The department did not comply with program requirements relating to medical support and paternity establishment. Also, administrative fees paid to the state were not properly reported on the department's federal quarterly report.

Security Over Computer Systems Needs Improvement*

Controls over access to the Automated Client Certification and Eligibility Network of Tennessee (ACCENT), the Tennessee Child Care Management System (TCCMS), and the Tennessee Rehabilitation Accounts Client Tracking System (TRACTS) were inadequate.

Resource Control Access Facility (RACF) Security Needs Improvement

Contract users who had terminated employment possessed active RACF privileges.

Alleged Employee Fraud Not Reported to the Comptroller of the Treasury

The Director of Program Integrity did not notify the Comptroller of the Treasury about the department's knowledge and subsequent investigation of three employees for possible fraud. One employee continued to be paid after termination.

The Department Received Advertising Services Without Going Through the Required Procurement Process

The Department of Human Services improperly obtained advertising services by using a contract between the Department of Economic and Community Development; the Tennessee Film, Entertainment and Music Commission; and Akins and Tombras, Inc. This action circumvented the required competitive procurement process.

For as Long as Seven Years, the Department Used Contract Employees, Resulting in Significant Fiscal and Legal Issues

The department used contract workers instead of hiring employees to implement federal programs. However, there is no evidence that management considered or compared the costs associated with this method of obtaining "employees" with any alternative methods.

Comptroller Hotline Call Investigations Have Not Been Reported as Required by State Law

A written report has not always been submitted to the Comptroller of the Treasury outlining the findings of investigations and any remedial action taken on hotline calls.

State Law Title VI and Title IX Requirements Were Not Complied With

The Department of Human Services' Title VI and Title IX implementation plan updates did not include the plans of the department's subrecipients, nor did the department submit a Title IX compliance report.

Department of Labor and Workforce Development
For the Year Ended June 30, 2002

The Activities of Two Contractors Hired by the Department Were Not Adequately Monitored
Two Information Technology Professional Services contractors were not monitored, resulting in the state being overbilled.

The Middle Tennessee Career Center at MetroCenter Did Not Maintain Information Used to Certify Participants' Eligibility

Information used to determine eligibility for enrollees of the Workforce Investment Act program was not maintained.

Grant-funding Information Is Not Always Recorded Properly in the State's Property Records

The department did not show equipment purchased during the audit period as purchased, in whole or in part, with federal funds.

Post-Conviction Defender Commission

For the Years Ended June 30, 2001, and June 30, 2000

The Commission Should Submit Invoices and Travel Claims Timely for Payment

Invoices were not paid timely as required by the Department of Finance and Administration's (F&A) Policy 15, and reimbursement for travel was not timely as required by F&A Policy 8.

Tennessee Board of Probation and Parole

For the Period July 1, 2000, Through February 28, 2003

The Board of Probation and Parole Did Not Always Enforce Payment of Assessed Fees or Properly Maintain Probationer Files

The Board of Probation and Parole did not always take the necessary steps to enforce collection of probationer/parolee fees. In addition, board staff could not locate five probationer case files.

Department of Revenue

For the Year Ended June 30, 2001

The Department Lacks Adequate Control Over Write-Offs of Tax Liabilities

Numerous employees in the Fiscal Administration and Taxpayer Services divisions have access capabilities within the Revenue Integrated Tax System (RITS) to write off large liabilities without obtaining approval or maintaining documentation for each tax write-off.

Deposit Dates of Payments Requiring Special Processing Are Not Always Recorded Correctly*

Deposit dates on RITS automatically change when the account is updated, resulting in inaccurate information recorded in RITS.

Supervisors Do Not Properly Review Changes to Taxpayers' Account Balances

The department is not reviewing account balance changes as required by the Department of Revenue's "Guidelines for Changing Account Balances and Approving Those Changes." According to guidelines, supervisors are required to initial, date, and make comments on certain adjustments on the Employee Transaction Activity Reports.

Tax Bonds Held by the Department Lack Proper Signature Approval

Not all motor fuel tax bond accounts tested and tobacco tax bond accounts tested contained the signature approval of the Commissioner.

The Department Lacks Control Over Refunds and Does Not Minimize Interest Paid*

Refunds were not sent to the Attorney General's office or processed within 45 days, and interest calculations were not accurate.

Approval of Refund Claims Was Not Always Documented

Depending on the dollar amount of refund requests, the department is required to document approval from the Attorney General's office or from departmental supervisors. However, documentation of these approvals was not located.

Department of State

For the Years Ended June 30, 2001,
and June 30, 2000

Cash-Receipting Function Not Adequate*

No controls are in place within the Corporate Management System (CMS) to prevent data-entry clerks from assigning the same receipt number to several documents. The CMS simultaneously documents services provided by the department and receipts the fees collected. If different receipt numbers are not assigned for each service performed, services could be documented even though the proper fee had not been received, and the department could lose revenue.

**Tennessee State School
Bond Authority**

For the Year Ended June 30, 2002

The Qualified Zone Academy Bond Program Does Not Have Adequate Controls

There are no written procedures outlining the responsibilities concerning the administration of the Qualified Zone Academy Bond Program. In addition, the controls over the program are not adequate.

**State University and
Community College
System of Tennessee –
Central Office**

For the Years Ended June 30, 2001,
and June 30, 2000

Shortages of Moneys Were Not Reported to the Comptroller of the Treasury Immediately as Required by Law

The Central Office did not report shortages of moneys after a collection agency failed to remit funds to numerous Board of Regents schools. Beginning on July 1, 1995, Unger and Associates, Inc., collected bad debts from former students of Tennessee Board of Regents' schools pursuant to a contract with the Central Office. However, the Texas-based agency breached this contract beginning in the fall of 1998 through June 1999, when it failed to remit collections to the respective schools. The agency filed for bankruptcy in June 1999. However, the agency continued to make collections from former Tennessee Board of Regents' students. As of February 28, 2002, the board's net loss from this collection contract was at \$68,262. The Central Office did not report these shortages to the Comptroller of the Treasury as required by Section 8-19-501, *Tennessee Code Annotated*.

**Teacher Group Insurance
Fund**

For the Year Ended June 30, 2002

The Tennessee Insurance System (TIS) Is Not Functioning Efficiently and Effectively*

TIS has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, changes are being made directly to the TIS database through a software program, necessitating manual reconciliations and adjustments.

The Division of Insurance Administration (DIA) Does Not Monitor the Claims Processed by Insurance Companies on Behalf of the State

DIA has not been monitoring claims processing by the insurance companies to ensure that only allowable claims are processed.

Department of Transportation

For the Year Ended June 30, 2002

Departmental Policies and Procedures to Ensure Compliance With Davis-Bacon Not Always Followed*

The department has established policies and procedures to help ensure compliance with the Davis-Bacon Act. However, department personnel do not always adhere to these policies and procedures. Interviews with laborers and mechanics to help ensure contractors' wage compliance were not always conducted.

Controls Over Programmer Access to DOT STARS Not Properly Restricted*

The Office for Information Resources' Systems Development Support programmers had ALTER access to the Department of Transportation State Transportation Accounting and Reporting System (DOT STARS) data sets. ALTER access grants users the ability to directly change or delete the contents of application data sets.

DOT STARS Disaster Recovery Plan Is Insufficient*

The disaster recovery plan for DOT STARS is insufficient. Much of the plan is simply a set of generic guidelines for addressing specific issues relating to disaster recovery. Detailed plan revisions have not been completed or incorporated into a comprehensive plan.

Advertising Services Obtained Without Required Bids

The department improperly obtained advertising services under the contract between the Department of Economic and Community Development; the Tennessee Film, Entertainment and Music Commission; and Akins and Tombras, Inc. The services provided to the department were not within the scope of the contract.

Department of the Treasury

For the Year Ended June 30, 2002

The Wire Room Manager's Access to the Federal Reserve's Fedline Terminals Was Not Adequately Controlled

The Department of the Treasury maintains a secure room known as the wire room, from which electronic funds are disbursed and received. The Wire Room Manager had the ability to transfer funds using the Federal Reserve's Fedline terminals with no verification by another employee in the wire room. This improper access would allow for the Wire Room Manager to transfer funds from the state's Federal Reserve account to an unauthorized account with no other employee's involvement. The security settings for the Fedline terminals should require the involvement of two employees to send a wire transfer.

Earnings of the Baccalaureate Education System Trust, Educational Services Plan Were Reduced Because the Department of the Treasury Acted Before a Contract Was Obtained

During the audit period, the department was involved in contract negotiations to transfer management of the program's bond portfolio to an external manager. Management liquidated the program's current bond holdings before an agreement was reached. Subsequently, contract negotiations stalled, and no agreement was reached. As a result, assets were not invested within the asset ranges prescribed in the Board of Trustees' normal investment policy for an 11-month period, and earnings were reduced. If the department seeks another manager for the program's funds in the future, investments should not be sold until all parties approve a contract.

The Department of the Treasury Overpaid Criminal Injury Compensation Program Claimants

The Criminal Injury Compensation Program was established to provide financial help to persons who are innocent victims of crime. Two overpayments were noted during audit testwork. An overpayment of \$2,708.15 occurred when a claimant was reimbursed for costs already paid by an insurance company. Also, an overpayment of \$673.20 occurred when a claimant was reimbursed for lost wages at the current pay rate instead of the pay rates in effect during the period of lost wages. The division needs to ensure that sufficient research is performed on each claimant to ensure that the claimant's expenses have not previously been paid by a third party. The pay rates in effect when the claimant missed work should be used to calculate reimbursements for lost wages.

The Collateral Pool Board and the Department of the Treasury Should Ensure That Annual Reports Required From Participating Financial Institutions Are Received in a Timely Manner*

The required annual reports from financial institutions are used to provide assurance that the institutions have reported all public deposits held and pledged sufficient collateral for the public deposits held. However, some annual reports are not being received by the due date. It appears that the department lacks adequate enforcement procedures to ensure that required reports are completed and submitted to the department.

Tennessee State Veterans' Homes Board

For the Year Ended June 30, 2001

Accounts Receivable Practices Are Not Adequate*

The Tennessee State Veterans' Homes Board's accounts receivable balances do not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid and other overpayments, and the management company has not properly reduced the rate adjustment for certain Medicaid-eligible veterans. In addition, revenue accounts were not recorded correctly.

Internal Control for Fixed Assets Is Not Adequate*

Equipment records are inadequate to integrate annual inventory results into the general ledger, the records are inaccurate, and a clear capitalization policy for additions is not in place.

Management Did Not Monitor the Activities of the Bond Trustee and Subsequent to the Audit Period Did Not Record Cash Entries Correctly

Management did not maintain internal control over cash. As a result, subsequent to the audit period, numerous errors occurred in the trust accounts and in the cash accounts on the general ledger.

Internal Control for Purchasing Is Not Adequate*

The board facilities do not have an adequate segregation of duties relating to purchasing, the board's policies and procedures over purchasing are not being followed, and service contract approvals required by state law are not being obtained.

Receipt of Goods and Services Was Not Documented*

The verification of receipt was not consistently documented.

Petty Cash Policies Are Inadequate and Are Not Being Followed*

The petty cash policy does not address what types of purchases can be made through petty cash funds. The policies and procedures that have been adopted are not being followed.

Accounts Receivable Practices Are Not Adequate*

The board has not promptly refunded Medicaid overpayments, and the management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans.

The Board Did Not Comply With Legally Binding Documents

The board has failed to meet all of the requirements within the Official Statements and other Bond Documents. Control of spending was circumvented when transfers were not made as set forth in the bond documents.

The Foundation Board Continues to Improperly Use State Resources for Its Operations*

Employees of the board handle cash receipting and financial records for the foundation.

Travel Claims Were Not in Compliance With Comprehensive Travel Regulations

Board members, employees of the facilities, and employees of the management company acting on behalf of the facilities have not completed travel claims in accordance with Comprehensive Travel Regulations.

Universities, Colleges, Technical Institutes, and Technology Centers

Austin Peay State University

For the Year Ended June 30, 2002

Procedures Related to Financial Aid Refunds Need Improvement

Reports listing students who failed due to lack of attendance (FA) or who failed because they never attended class (FN) were not always complete because professors did not always submit attendance information. The financial aid office uses these reports to determine refunds of financial aid. Of 46 students tested who received a grade of FA or FN, 7 were not included on the FA/FN reports. Refunds were due to appropriate programs or lending institutions for two of the seven students. These refunds were eventually made, but not within 30 days of the student's withdrawal date as required by federal regulations. In addition, the withdrawal dates were not determined within 30 days after the end of the semester as required by federal regulations.

Nashville State Technical Institute

For the Years Ended June 30, 2001, and June 30, 2000

User Authorization for Access to Computer Systems Was Not Adequately Documented

The institute's Computer Services management did not have reliable documentation of authorization for users of the Systems and Computer Technology computer systems. Several user authorization forms selected for examination were missing, some forms were not signed by management, and the access granted on some of the forms was not as great as the user's access.

Roane State Community College

For the Years Ended June 30, 2001, and June 30, 2000

Purchases Were Not Always Made in Compliance With the Purchasing Policies

Purchases were sometimes completed before a purchase requisition and/or purchase order were prepared. If purchases are not properly approved prior to ordering, the college could be obligated to pay for unauthorized equipment and supplies.

Tennessee Technology Center at Knoxville

For the Years Ended June 30, 2001, and June 30, 2000

Failure to Report Pell Disbursements on a Timely Basis

Pell disbursements were not always reported to the U.S. Department of Education within 30 days, as required by federal regulations. Disbursements were reported from 40 to 273 days late.

Tennessee Technology Center at Memphis

For the Year Ended June 30, 2001

The Center Did Not Comply with the Tennessee Board of Regents' Conflict of Interest Policy

The center did not comply with the Tennessee Board of Regents' conflict of interest policy. Employees reporting to the center's director did not complete a disclosure statement each January as required by the policy.

Southwest Tennessee Community College

For the Year Ended June 30, 2001

Internal Controls Related to Restricted Fund Accounts Were Weak*

Internal controls over restricted fund accounts were weak. Because of weak internal controls, restricted activity was not properly recorded, adequate collection efforts were not made to collect prior-year receivable balances, and uncollectible balances were not adjusted.

Tennessee State University
For the Year Ended June 30, 2002

The University Did Not Report Pell Payment Data to the Department of Education (ED) Within the Required Time Frame

For students whose Pell Payment Data was tested, the university did not report all Pell Payment Data to ED within 30 days of disbursement to students. A disbursement record should be submitted no later than 30 days after the disbursement is made.

The University of Tennessee
For the Year Ended June 30, 2002

Need to Better Document Programming Changes for the Central Services Accounting System

At the Knoxville campus, the university should develop policies and procedures to better document programming changes for its Central Services Accounting (CSA) system. Without the effective documentation of programming changes, programmers could potentially perform unauthorized changes to accounting data and student information within the CSA system.

Failure to Properly Record Serial and Tag Numbers for Federal Equipment

Departmental personnel are failing to enter the serial numbers and tag numbers of equipment purchased with federal funds on the university accounting system. Without the prompt recording of this information on the university's accounting system, the university will lack the ability to properly safeguard and control these equipment assets.

Effort Certification Reports Were Not Completed on a Timely Basis*

For the six-month period ended December 31, 2001, effort certification reports were not completed on a timely basis. These reports document payroll costs charged to federally sponsored grants and contracts.

Due Diligence Procedures for Perkins Loans Need Improvement

At the University of Tennessee at Chattanooga, federal due diligence procedures for Perkins loans were not followed. Management should ensure that students entering a repayment or default status are contacted at the required intervals stipulated in the *Code of Federal Regulations*.

Financial Aid Verifications Were Not Properly Conducted

At the University of Tennessee at Chattanooga, for the year ended June 30, 2001, not all federal financial aid verifications tested were properly conducted. Necessary corrections were not submitted.

Student Status Changes Not Properly Reported

At the University of Tennessee at Knoxville, the university did not always report enrollment changes for Federal Family Education Loan borrowers who dropped classes, withdrew, or graduated.

Failure to Properly Justify a Sole-Source Contract

The university entered into a noncompetitive (sole-source negotiation) contract with a marketing firm without adequate justification. The university's *Fiscal Policy* allows for a noncompetitive contract when "only one product or service can meet a specific need and the product or service is available from only one source."

Community Services Agencies

Davidson County Metropolitan Community Services Agency

For the Year Ended June 30, 2001

The CSA Is Not Operating as a Distinct Entity Separate From the County

The distinction between the Davidson County Metropolitan Community Services Agency (CSA) and the Metropolitan Government of Nashville and Davidson County is convoluted and frequently impossible to differentiate.

The CSA Has Not Established or Maintained Adequate Business Records

The CSA does not have adequate accounting records including a general ledger, chart of accounts, or trial balance. In addition, the CSA could not readily provide copies of invoices, accounting reports, bank statements, or other official records.

The CSA Did Not Monitor Its Contract With the Metropolitan Government

The CSA has not monitored the Metropolitan Government of Nashville and Davidson County's fiscal and program performance to ensure that the metropolitan government has complied with the terms of the contract.

The CSA Incurred Expenses Without an Executed Contract

The CSA allowed the metropolitan government to provide services for more than nine months of the fiscal year ended June 30, 2001, before a properly approved and executed contract was in place.

The CSA Transferred \$273,615.96 in Violation of State Statute

During the year ended June 30, 2001, the CSA transferred \$273,615.96, including a "donation" of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute. The transfer was not included in the Plan of Operation or subsequent amendments and was not approved by the appropriate state officials.

The CSA Did Not Submit Its Annual Report in Compliance With State Law

The Davidson County Metropolitan Community Services Agency did not prepare and submit its annual report in compliance with state law. No report for the fiscal year ended June 30, 2001, has been issued.

**Knox County Community
Services Agency**
For the Year Ended June 30, 2001

**Alleged Employee Fraud Was Not Reported to the Comptroller of
the Treasury**

The Executive Director of the Knox County Community Services Agency did not notify the Comptroller of the Treasury about possible employee fraud and the ultimate resolution of management's investigation.

**Memphis and Shelby
County Community
Services Agency**
For the Year Ended June 30, 2001

**A Fiscal Agent Relationship Was Created With the Department
of Children's Services**

The Memphis and Shelby County Community Services Agency paid for goods and services procured by the Department of Children's Services without actively determining the necessity or reasonableness of the goods and services requested by the Department of Children's Services.

The Agency's Financial Activities Were Not Prudently Managed*

The financial statements prepared by the Chief Financial Officer for inclusion in the 2001 Tennessee Comprehensive Annual Financial Report (CAFR) were materially different from the audited financial statements. The CSA also held excessive funds in its non-interest-bearing operating and payroll accounts.

**Bank Reconciliations Were Not Always Performed and Reviewed
Timely, and Procedures Were Not Followed***

As noted in the prior audit, bank reconciliations were not performed timely, and procedures related to the preparation and review of the reconciliations and the signing of checks were not followed.

The Agency Did Not Comply With Contract Terms*

Contract services were authorized, provided, and paid for prior to the approval of the contract.



Gregg Hawkins, CPA
Assistant Director

The TennCare section of the Division of State Audit, under an agreement with the Department of Finance and Administration, performs certain audit and rate-setting functions for the state's TennCare program.

A staff of 17 professional auditors and one nurse auditor perform the following functions:

- Cost settlements for state-operated Development Centers that provide services to mentally retarded recipients.
- Rate setting and audit for nursing homes and Intermediate Care Mental Retardation facilities that participate in the Medicaid Program.
- Examinations of TennCare Managed Care Organizations (MCOs) and Behavioral Health Organizations (BHOs) that contract with the state to provide medical services under the program. The examinations are performed jointly with, and released under, the Department of Commerce and Insurance.
- Computing of reimbursement settlements and prospective rates for Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC) as required by the Benefits Improvement and Protection Act of 2000 (BIPA).

- Clinical monitoring of the state's Mental Retardation Waiver project.
- Computing of Certified Public Expenditures (CPE) for public hospitals. CPE is defined as unreimbursed TennCare costs. The TennCare waiver provides for additional federal funding depending on the level of CPE in public hospitals.

Examinations of Nursing Facilities

In fiscal year ended June 30, 2003, the TennCare section completed five examinations of nursing facilities and intermediate care facilities. The examinations reported findings such as

Nonallowable expenses
Inaccurate accumulation of patient days
Excessive charges to Medicaid residents

Examinations of TennCare MCOs and BHOs

In fiscal year ended June 30, 2003, the TennCare section assisted the Department of Commerce and Insurance in performing two examinations of MCO and BHO contractors. Examples of significant findings reported included

Deficiencies in claims processing system
Deficiencies in provider contract language

The TennCare section also performs quarterly monitoring of one of the MCOs that is currently under state operation.

In addition to audit and rate-setting, the TennCare section also provides some financial and budgeting support to the program. For example, nursing home payments are tracked so that the state can better prepare its budgets.

Also, the TennCare section provides for monitoring compliance with the orders and consent decree entered by the federal court governing TennCare Enrollee Appeals.



Barbara K. White, CPA, CGFM
Assistant Director
TennCare-Special Projects

The state, legislature, or federal government often requests that the Division of State Audit work on special TennCare projects. One such project is currently in progress:

- The state, under a consent decree with the federal court, has agreed to comply with certain requirements with respect to TennCare enrollee grievances and appeals. The TennCare managed care contractors and their providers are also subject to the consent decree, so it has widespread implications. The agreement, commonly referred to as the “Grier Consent Decree,” became fully effective on November 1, 2000.

The Grier Consent Decree required the state to enter into an agreement with the Comptroller’s Office to monitor all aspects of compliance with the order and to report quarterly. The areas to be addressed specifically in the report are as follows:

- (a) Compliance with notice and appeal procedures when the defendants or others acting on their behalf propose to take any adverse action affecting inpatient or residential behavioral health services.
- (b) Compliance with requirements that provide special notice and appeal protections for children in state custody.
- (c) The consistency and rigor of the defendant state officials’ actions to enforce the terms of this order against their contractors.

- (d) The extent to which the defendant state officials are analyzing data to identify patterns of contractor noncompliance with federal or state requirements and taking appropriate action to correct systemic violations or other problems adversely affecting beneficiary care.
- (e) Compliance with the special provisions pertaining to pharmacy services.
- (f) The adequacy of beneficiary notices provided by state officials and their contractors.
- (g) Procedures to monitor compliance with requirements for the public posting of notices informing beneficiaries of the rights and protections incorporated in this order.
- (h) Address other selected areas as considered necessary.

Quarterly reports through June 30, 2002, have been completed and the report for the quarter ending September 30, 2002, is in progress.

Performance



Deborah V. Loveless, CPA, MBA, CGFM
Assistant Director

A performance audit is an independent examination of the extent agencies and departments of state government are faithfully carrying out their programs. The audit reports assist the General Assembly and agency management

- by assessing the extent to which state agencies have fulfilled their statutory mandate and the efficiency and effectiveness of management's organization and use of resources,
- by developing recommendations for management or legislative action that might improve the efficiency and effectiveness of the agency's operations, and
- by providing pertinent program and financial data about the agencies.

Most of the performance audit section's workload is performance auditing directed by the Tennessee Governmental Entity Review Law, commonly known as the Sunset Law (Section 4-29-101 et seq., *Tennessee Code Annotated*). This law requires that each agency, board, commission, or other entity be reviewed at least once every eight years by the legislative Joint Government Operations Committee to determine whether that entity should be continued, restructured, or terminated.

Audit staff focus their efforts on the audits of major entities. In the year ended June 30, 2003, the performance audit section released seven audit reports and two special reports and had 15 projects in process at year-

end. The Government Operations Committees held 16 public hearings on 51 entities in the year ended June 30, 2003. At these hearings, performance audit staff presented audit reports covering six entities. Another 45 entities submitted written responses to staff-prepared questions based on their statutory authority and responsibility. In addition, the committee received updated information requested in prior-year public hearings on two entities.

Audit Process

Performance audits are conducted in accordance with government auditing standards generally accepted in the United States of America. Audits progress through six phases: planning, detailed audit field work, report writing, comments from agency management, publication of the final report, and presentation of the final report at a legislative hearing. Performance auditing includes the following activities:

- Review of relevant state and federal laws, court cases, Attorney General's opinions, executive orders, rules, and regulations.
- Review of the agency's procedures, plans, and policies.
- Examination of the agency's records, files, and correspondence.
- Interviews with staff of the audited agency and related agencies.
- Observation of the agency's operations and activities.
- Analysis of the agency's revenue and expenditure data.
- Analysis of the agency's program data, performance measures, and reported results.
- Review of comparative data from other states.
- Surveys of individuals, agencies, and organizations served or affected by the agency.
- Tests for compliance with significant legal and administrative requirements.
- Evaluation of the extent to which the agency achieved desired results at the lowest reasonable cost.
- Recommendations of possible alternatives for legislative or administrative action that may result in more efficient and effective accomplishment of the agency's legislative mandate.

Results of Audits

The following are summaries of the results of the seven audit reports and two special reports released during the year ended June 30, 2003.*

*Findings repeated from prior audits are marked with an asterisk.

**Department of Commerce
and Insurance**

March 2003

Financial Analysis Process Policies and Procedures Are Applied Inconsistently

The Division of Insurance conducts quarterly and annual financial analyses of insurers domiciled in the state. However, the inconsistent application of policies and procedures, both formal and informal, may hinder the division's ability to detect financially troubled insurers and/or insurers engaging in unlawful and improper activities, thereby endangering the policyholders of Tennessee.

The Division Does Not Adequately Follow Up to Ensure That Companies Correct Identified Deficiencies

The division's examination of an insurance company may result in a list of deficiencies and directives with which the company must comply. The examination process is weakened, however, by the division's lack of timely, on-site follow-up to ensure that appropriate corrective actions have been taken and that the company has remedied identified problems. Concerns about the division's examination follow-up system were also raised in the June 1992 performance audit of the Division of Insurance.

The Division Did Not Always Ensure That Insurance Companies Met All Requirements Related to Deposits Held for the Protection of Policyholders

Our review of deposit-related documentation indicated that the Division of Insurance did not always ensure companies met all requirements. In addition, although the division staff did apparently perform some reviews to determine whether securities were acceptable, the division did not have a formal process to ensure that companies met (and continued to meet) state and departmental requirements, as well as the requirements of their individual depository agreements. Without such a process, policyholders and creditors may be at greater risk if insurance companies experience financial difficulties.

The Division Should Ensure That Staff Uniformly Follow Policies and Procedures When Conducting Examinations of Insurance Companies or Document Their Reasons for Not Following Those Procedures

Methods used in examination, documentation of items and procedure steps, and the depth of examinations appear to vary depending on the examiner in charge of a particular examination. Inconsistent application of policies and procedures governing the examination process could hinder the Division of Insurance's ability to detect, as early as possible, and take appropriate and timely regulatory action against, those insurers in financial trouble and/or engaging in unlawful and improper activities.

The Division Has Not Been Consistent in Applying and Documenting Its Insurance Admission Process

As part of the process for permitting an insurance company to conduct business within the state, division staff gather and discuss pertinent information about the company's soundness and ability to serve Tennessee policyholders. However, our review indicated that the division was not always consistent in the information it gathered.

Furthermore, the files provided no explanation as to why some seemingly relevant information was not obtained for some companies. The division also did not consistently document specific details concerning its admissions decisions, such as the reasons for denials of admission.

Training and Certification of Bomb and Arson Special Agents Need Improvement

We identified two basic weaknesses in special agents' preparedness to handle their duties investigating arson and bombings: 1) the lack of regular annual training relating to Peace Officer Standards and Training (POST), and 2) the lack of supervisory-related training.

Bomb and Arson Policies and Procedures Are Incomplete

The Director of Bomb and Arson stated that he was in the process of updating these policies and procedures, using those of the Tennessee Bureau of Investigation (TBI) as a model. A comparison of the section's policies and procedures with those of the TBI indicated that the section lacks policies addressing several investigative and non-investigative areas.

Arson-related Training for Local Fire and Police Departments Needs Improvement

Investigations involving suspected arsons are, in most locations in the state, handed off to state investigators because of lack of local expertise. The large number of volunteer fire departments compounds the problem of lack of investigative expertise. Effective detection by local investigators is important, however, because the section does not have the resources to investigate every suspicious fire in the state.

Case Files and Conversations Are Not Properly Secured

Information concerning Bomb and Arson Section cases in paper files and in related conversations is not secured at the central and field offices. Information in paper files is not only unprotected from intentional and unintentional damage or destruction, but also is not easily retrievable. In addition, sensitive conversations regarding ongoing cases are not always conducted in enclosed rooms.

The Majority of Fire Departments Do Not Report Fire Incident Data to the Tennessee Fire Incident Reporting System, and the Division Has No Authority to Enforce Such Reporting

As of September 2001, only a third of Tennessee's 663 fire departments reported fire incident data to the Tennessee Fire Incident Reporting System (TFIRS). *Tennessee Code Annotated* does not specifically require fire departments to report data to TFIRS, and the Division of Fire Prevention has no authority to force fire departments to report. Reporting of fire incident data is important, however, because it can help the division identify departments or areas needing additional training, technical assistance, and fire prevention education. In addition, some federal fire prevention grants to Tennessee could be negatively impacted if fires are underreported.

The Department Needs to Implement a Formal, Comprehensive Fire-Prevention Education Program

Education efforts are informal in nature and included activities such as occasionally providing fire-prevention education in schools, referring requests for such education to local fire departments, and, if requested, providing brochures on fire prevention. An August 2002 edition of the *U.S. Fire Death Patterns by State* indicated that Tennessee's 1995-99 average fire death rate per million was 26.5, the third highest nationally.

The Electrical Inspection Section Does Not Periodically Review the Competency of the 20 Cities/Counties Granted Exemption from State Electrical Inspections

By law, the State Fire Marshal may authorize municipalities to perform their own electrical inspections and, thereby, be exempt from the state inspections. Twenty entities are exempt and have held these exemptions since at least 1984. The Electrical Inspection Section, however, does not periodically review the exempt entities' operations to ensure that their standards and their inspection programs are adequate.

The Codes Enforcement Section Is Not Performing the Required Audits of the Local Governments Granted Exemptions from State Building and Fire Codes

By law, local governments can request, and receive, an exemption from statewide building construction safety standards if they certify in writing that they have adopted certain building codes and are adequately enforcing those codes. The Codes Enforcement Section is not, however, auditing the records and transactions of these local governments to ensure that they are adequately performing their enforcement functions, as required by statute.

Some Codes Enforcement and Deputy Electrical Inspectors' Personnel Files Lack Necessary Documentation

Some of the personnel files reviewed lacked information such as (1) documentation showing that those persons meet the minimum qualifications required for their job classification; (2) a state application—applicable for Codes Enforcement personnel only; and/or (3) an annual evaluation. The lack of such documentation could indicate the existence of employees (state or contract) who do not have adequate qualifications to perform their jobs, as well as a failure by management to adequately oversee the hiring, performance, and training of employees.

The Majority of Manufactured Houses Are Being Set Up Without the Required Anchoring Permits and Inspections

Manufactured homes that have not been properly anchored may pose a threat to the homes' occupants and/or persons living nearby. In 1976, the General Assembly passed legislation requiring that manufactured homes be anchored by an installer approved by the State Fire Marshal and be inspected for compliance with standards set by the department. Legislation passed in 1981 added a requirement that the installer apply for a permit prior to installing a stabilizing system. Despite these

requirements, which have been in place for 20 or more years, our review indicated that few installation permits are being issued and few inspections are being conducted. As a result, the department has no assurance that manufactured houses have been installed properly, by licensed individuals, and in compliance with standards.

The Division of TennCare Oversight Needs to Establish Formal Policies for Conducting Operations

The division's policy manual, which includes guidance for performing general office duties (e.g., locating documents) as well as for addressing technical matters (e.g., taking complaints from providers or corresponding with MCOs), is a compilation of memos and e-mails issued by division management. These memos and e-mails often refer to staff members by name (instead of job title) and are casual in tone. While the policies address situations as they arise, it is difficult to determine if a policy rescinds or updates a previous policy. Furthermore, most of the memos and e-mails do not include the date on which the policy goes into effect.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: (1) Division of Insurance staffing issues; (2) department actions in response to Gramm-Leach-Bliley; (3) the lack of periodic routine examinations of investment advisers; (4) the lack of building codes for one- and two-family dwellings; (5) the status of a polygraph examiner for the Bomb and Arson Section; (6) the need for Bomb and Arson staff to become Certified Fire Investigators; (7) the department's lack of authority to oversee fire departments; (8) AIMS 2000; (9) the Emergency Communication Board and access to 911 services; (10) the need for coordination among several agencies in overseeing and monitoring the TennCare Program; (11) the TennCare Oversight Division's actions to identify and address the MCOs' and BHOs' financial problems; and (12) the TennCare Oversight Division's efforts to enforce compliance with claims processing requirements.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider a formal definition of "fire department," which would include training and background-screening requirements for firefighters and would delineate between full-time and volunteer fire departments. The General Assembly may also wish to consider giving the Department of Commerce and Insurance authority to intervene when problems arise that threaten fire service in a particular locality.

The General Assembly may wish to clarify language in Section 68-102-111, *Tennessee Code Annotated*, to require fire departments to report fire incident data to TFIRS at least annually.

Department of Financial Institutions

June 2002

The Department Has Failed to Produce an Annual Report in Accordance With Statute

For at least the last five years, the department has not produced its annual report in accordance with statute or in a timely manner. *Tennessee Code Annotated* requires an annual report within 60 days of the fiscal year end; however, the department produces its annual reports based on the calendar year because that is how banks report their information. Information required to be in the annual report is not available until approximately three months after the end of the calendar year, and the annual report itself is not produced until several months later. For the last five years, the time from the end of the calendar year until the annual report was published has been eight months (1996), six months (1997), seven months (1998), and ten months (1999 and 2000).

OBSERVATIONS AND COMMENTS

Issues that did not warrant findings but are included in this report because of their effect or potential effect on the operations of the department and on the citizens of Tennessee include the need for the department to consider revising its method for calculating bank rebates, the increase in the number of troubled banks, and the department's review of Franklin American Trust Company's application.

Tennessee Higher Education Commission**Follow-up Report**

February 2003

CONCLUSIONS**Benchmarks for Higher Education**

The 2000 performance audit reported that many of the benchmarks of Challenge 2000 would not be met and recommended that the next set of benchmarks be specific and quantifiable. The commission developed the Challenge 2000 goals, which reflected the goals established by the Southern Regional Education Board, as required by the General Assembly. After the Challenge 2000 goals expired in 2000, the commission approved new goals and benchmarks. Our review of these new benchmarks showed that most of the objectives are more specific and measurable.

Pre-Law and Pre-Health Science Fellowship Program

The previous audit reported that the Tennessee Pre-Law and Pre-Health Science Fellowship Program (PFP) was not significantly increasing the number of African-American professionals. The PFP is a summer enrichment program for African-American residents of Tennessee who wish to pursue a career in law, dentistry, medicine, pharmacology, or veterinary medicine. Its purpose is to increase the number of African-American students who enroll in and graduate from professional programs. Our follow-up work indicates that the program continues to produce a low number of professional school students, and those who complete the program have a reduced chance of completing professional school itself.

Minority Teacher Education Grant Program

The prior audit reported that the commission could not document results of the Minority Teacher Education Program. Through the program, the commission awards grants to higher education institutions to support projects to increase the number of African-American teachers in Tennessee, particularly in grades K-12. Since the audit, the commission has produced a report of results of the program which includes information on the rate at which program participants become teachers in Tennessee, the rate program completers teach in Tennessee, and the rate they teach in shortage subject areas in the state. The commission has not, however, made all the site visits to each institution as part of its performance indicator system.

Conflict-of-Interest Procedures

The last audit found that commission members and executive staff had not completed conflict-of-interest forms. Commission policies require that they disclose any activity, investment, or interest that might reflect unfavorably upon the commission. During the follow-up audit, we found that all members and executive staff had completed the forms.

Title VI Evaluation Process for the Eisenhower Grant Program

The commission did not perform site visits or gather statistical data for the grant as required by its Title VI Implementation Plan. The Eisenhower Professional Development Program is a federal grant program in which states receive funds to conduct programs designed to enhance K-12 teachers' instructional abilities.

Human Rights Commission Follow-up Report May 2003

The Commission Continues to Have Problems Initiating Complaint Investigation and Closing Employment Complaints in a Timely Manner*

The commission's failure to resolve employment discrimination charges in a timely manner diminishes the effectiveness of the commission, discourages those discriminated against from filing complaints with the commission, prevents complainants from obtaining remedies for their situations, and permits continued discriminatory practices. Although the percentage of cases over 270 days old has decreased from 68% in September 1998 and 51% in January 2002, the commission still has problems closing cases in a timely manner. As of March 11, 2003, 26% of the 383 open cases were at least 270 days old.

While the Commission Has Improved Its Resolution of Housing Cases, There Are Still Problems With Timely Processing of Housing Complaints*

The completion of housing cases by the commission continues to be a concern. In February 2002, there were 80 housing cases under investigation that had been open an average of 373 days. On March 10, 2003, there were 44 cases under investigation that had been open an average of 250 days.

Contract Investigators for the Commission Do Not Hold Licenses Required by State Law*

The commission's contract investigators are required by state law to be licensed in Tennessee as private investigators or attorneys. Two of five contract investigators do not hold Tennessee licenses.

Some Commissioners and Staff Are Not Signing and Dating an Annual Conflict-of-Interest Statement*

Conflict-of-interest statements for both employees and commissioners are either missing, undated, unattributable, or not up-to-date.

The Commission Has Not Followed State Policies Regarding the Employment and Workday of Some Personnel

Interim employees have worked for the commission beyond the one-year limit, and a part-time employee is working an excessive number of hours, sometimes working at home.

OBSERVATION AND COMMENT

The audit also discusses the issue of commission meeting attendance.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider amending Section 4-21-302 through 311, *Tennessee Code Annotated*, to require the commission to close employment and housing complaints within a specified number of days, depending on whether the case resulted in a "cause" or "no cause" finding, was being mediated, or was going before an administrative law judge.

The General Assembly may wish to consider amending *Tennessee Code Annotated* to require the removal of any commission member who regularly fails to attend commission meetings.

Department of Revenue
August 2002

The Department Does Not Verify the Accuracy of the Data Used in Performance Accountability Measure (PAM) Calculations

The department's strategic plan has performance measures used by the agency to show results and ensure accountability. When data are not verified, management may report a strategy as completed that is not or may make management decisions based on inaccurate performance calculations. In addition, the divisions for which we reviewed the performance measures did not have written procedures specifying how to gather, compile, and report data.

The Audit Division Is Not Reporting Information Required by Divisional Procedure and the Strategic Plan

The department does not have information needed to monitor audit hours and determine whether it is improving the efficiency of the audit division.

Sampling Techniques Used by the Processing Division to Collect PAM Information Need to Be Improved

Data gathered to measure the percentage of timely deposits could be misleading because of a lack of written procedures, the way missing sample items are dealt with, and the presentation of the results.

OBSERVATIONS AND COMMENTS

The audit also discusses the following topics: the internal audit of the Division of Tax Enforcement, the out-of-state audit offices, and the Revenue Integrated Tax System.

Tennessee Student Assistance Corporation
December 2002

Compliance Reviews of Institutions and/or Lenders Are Not Formally Tracked, Documentation Is Incomplete, and Work Is Duplicative*

TSAC's Compliance Section is responsible for reviewing the lenders in the student loan programs and the institutions those students attend, based on certain criteria. Although TSAC appears to be performing the reviews as required, we identified problems that may limit the efficiency and effectiveness of the review process. First, TSAC has no formal system for tracking institution or lender reviews, and available documentation is not updated or complete. Second, lender reviews done by TSAC are similar to reviews done by the U.S. Department of Education. Third, some lenders are reviewed repeatedly, while other, smaller lenders may seldom, if ever, be reviewed. Finally, reviews were not always completed in a timely manner.

The General Assembly May Wish to Remove Several Inactive Programs From Statute

There are four programs related to TSAC that are inactive yet still remain in statute. These programs are the Tennessee Student Employment Incentive Program, the Loan-Scholarship Program for Graduate Nursing Students, the Loan-Scholarship Program for Medical or Osteopathic Students, and the Taylor Plan.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: the federal recall of reserve funds and the status of the process to revoke the professional licenses of persons who default on their student loans.

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider removing the following inactive programs from statute: the Tennessee Student Employment Incentive Program, the Loan-Scholarship Program for Graduate Nursing Students, the Loan-Scholarship Program for Medical or Osteopathic Students, and the Taylor Plan. Before taking such action, however, the General Assembly may wish to review the current need for these programs and reactivate any that are found to be needed.

Special Report
State Parks Purchasing
Authority
January 2003

ANALYSIS AND EVALUATION

Allowing State Parks to Purchase Supplies and Equipment Without the Approval of Any Other Agency of State Government Has Resulted in Savings, Increased Purchasing Flexibility, and Improved Efficiency

The purchasing authority granted to the Department of Environment and Conservation and detailed in Section 11-3-112, *Tennessee Code Annotated*, has provided improved flexibility for purchasing decisions and has led to improved efficiency and lower costs.

In General, the Rates Charged at State Parks Appear to Be in Line With Similar Non-Park Operations in Tennessee and With Corresponding Operations in Surrounding States

Rates at inns and cabins in Tennessee state parks compare favorably to rates at state parks in surrounding states. The report also compares the revenues and expenses of each operation at each Tennessee state park to the same operation at other Tennessee state parks. Rates charged at golf courses and marinas are compared to non-park businesses located in the same geographic area of each state park. Exceptions and recommendations are noted in the pertinent sections of the report. Improvements desired by park managers and other department staff include flexibility to provide discounts to increase sales, especially during the off season, and ability to utilize temporary help to reduce personnel expenses.

ISSUES FOR LEGISLATIVE CONSIDERATION

To maximize the economic benefits of the flexible purchase program, the General Assembly may wish to consider expanding the type of items the department is authorized to purchase. The legislature may also wish to add the authority to purchase services.

Special Report
Specialty License Plates
February 2003

Overall Conclusions

The number of specialty plates available provides the citizens of Tennessee with a wide variety of choices when selecting a license plate, but also results in problems for the Department of Safety and the county clerks' offices in administering the program and in issuing, storing, and tracking the plates. Administrative problems are worsened by eligibility requirements for some types of plates and by the variety of ways in which revenue from the different plates is allocated.

We were asked to determine whether the fees collected for specialty license plates offset the costs to the state for manufacturing and issuing such plates and administering the related program. Making such a determination was problematic because the Department of Safety and the county clerks' offices had never quantified all of their costs and because of difficulties in separating costs associated with regular license plates

from costs specifically associated with specialty plates. We do believe that, overall, the fees for specialty plates, which are assessed each year during the plate's life (not just when the plate is issued) more than offset the state's costs for carrying out the program. However, in some years and for some types of plates, the costs of carrying out the program are not covered before the revenues are allocated to the various funds or agencies (e.g., the Tennessee Arts Commission) outlined in statute.

Pursuant to *Tennessee Code Annotated*, the expense the Department of Safety incurs in designing, manufacturing, and marketing specialty and personalized plates should be recovered before revenues from plate fees are allocated to the various funds outlined in statute. Currently, \$4.00 per specialty plate goes into the General Fund to fund the Title and Registration Division's budget appropriation. The \$4.00 amount was the department's estimate of costs and has been used since 1995. In the year a specialty plate is first issued, the \$4.00 covers the amount TRICOR charges Title and Registration to produce a license plate but does not cover the other costs of administering the specialty license plate program. In subsequent years, however, the \$4.00 continues to be deposited into the General Fund to offset costs, even though the per-plate cost for those years is most likely substantially less than \$4.00. When regular license plates are personalized, none of the revenues resulting from that personalization go into the General Fund. Therefore, all the costs of the personalized license plates are not being recovered before revenues are allocated to the Tennessee Arts Commission.

Statutes require that specialty license plate revenues be allocated to certain funds, depending on the type of plate. We were able to trace the amounts allocated to the different funds back to the revenue amounts submitted by the Department of Safety. We were not able, however, to confirm that the allocations matched the actual types of plates issued. The Department of Safety requires the county clerks' offices to submit quarterly license plate inventory reports to indicate the number and types of plates on hand. However, the department is currently unable to reconcile the number of plates that have been allocated to a county, the number of plates that have been issued, and the number of plates in inventory at a given time. Therefore, the department is not able to determine whether the county clerks' offices properly reported the types of license plates issued. For example, the clerk's office may issue an Agriculture specialty plate and incorrectly report it as a Radnor Lake specialty plate. In such a case, the department would receive the correct amount of money, but the money would not be allocated to the correct fund.

The majority of county clerks (or their staff) we interviewed believe that the \$2.50 per plate they retain from registration fees does not adequately cover their costs for issuing license plates. Most, however, had never before attempted to quantify their costs related to license plates, let alone those costs specific to specialty plates. The county clerks and staff identified three major problems. Two problems concerned the issuance of personalized plates. The offices do not always receive the

personalized license plates by the 25th of the month (as the letter sent by the Department of Safety indicates), resulting in an extra trip for customers as well as extra staff time. Additional customer and staff time is also required when TRICOR makes an error personalizing a plate. Clerks also mentioned having problems since the Department of Safety no longer mails out the four-part license form to individuals. When the department routinely mailed out the form for renewal of a license plate, the clerk's staff only had to verify the accuracy of the information. Now the staff must spend additional time entering the information and printing out the four-part form during the renewal process.

**Department of
Transportation**
July 2002

Bridge Inspections Were Not Always Timely

A review of randomly selected bridge inspection files revealed that some bridges (9%) were not inspected within 27 months while others (12.5%) were inspected less than 22 months after the last inspection. Late inspections may cause delays in correcting problems, and early inspections increase the workload of inspection evaluators.

Many Bridge Inspection Files Reviewed Were Not Evaluated in a Timely Manner

The review of bridge inspection files also revealed that the department did not evaluate 71% of inspection reports within three months of the inspection. Bridge evaluations determine the overall condition and load capacity of a bridge.

Completion of Department Bridge Maintenance Recommendations Not Documented

Most bridge inspection files reviewed did not indicate whether the inspector's maintenance recommendations were completed. Without follow-up on the recommendations, the department cannot track whether the responsible entity (state or local government) has followed the recommendations and take action if the recommendations were not followed.

The Department Does Not Always Document Bridge Damage Inspections

Department procedures require documentation of bridge inspections following accidents. However, the department does not always complete a damage report if the damage is minor. In addition, the department does not keep a log of bridge accidents, which makes ensuring that inspections are done and recorded more difficult.

The Department Does Not Always Obtain the Required Project Environmental Permits in a Timely Manner

Contractors are prohibited from performing certain work without permits from the Department of Environment and Conservation, the U.S. Army Corps of Engineers, and the Tennessee Valley Authority. The project delay increases the cost of completing the project, and the project takes longer than planned.

The Department Does Not Have Written Guidelines for Determining the Type of Environmental Study to Prepare for State-Funded Highway Projects

The department may decide among two options concerning the type of environmental study to prepare for projects that only receive state funding: no study or a technical report addressing ecological, archaeological, and historical issues. Guidelines would help department staff decide the best option and provide consistency to the decision-making process.

Independent Assurance Testing of Asphalt Is Not Conducted as Required

The Division of Materials and Tests does not consistently conduct independent assurance tests of asphalt as required by the Federal Highway Administration and its own policies. Failing to perform these tests limits the department's ability to ensure that materials used in roadway projects meet contract specifications.

Contractor Lab Qualification Policies Not Fully Implemented

Not all contractor labs are being inspected by the department's regional labs as required by department policy. The policy was developed to help ensure that the best highway materials are used in roadway projects. Inspectors conduct a comprehensive assessment of equipment, checking for proper tolerances and condition of equipment.

Weaknesses in Policies on Timely Submission of Concrete Materials for Testing

The department's policy on the timely submission of concrete samples for testing does not encourage contractors to submit samples on time. Concrete used in areas such as bridges which require a very high strength capability is tested throughout a project to determine its strength.

No Cost-Benefit Assessment for Contracted Geotechnical Consultants

The department has not determined the advantages of using private consultants for geotechnical investigations. These investigations can identify potential problems, like sinkholes and landslides, that can add to project costs. Cost-benefit assessments can help the department ensure that it obtains the most efficient services at the best quality.

No Formal Assessments of Geotechnical Consultant Work

The Division of Materials and Tests does not have a formal process to evaluate the quality of work of its geotechnical consultants. The Design Division's contractor evaluation criteria include responsiveness, capability, and preparedness. Information obtained from evaluations could be helpful in identifying problem contractors and making decisions about whether to use them again in the future.

No Follow-Up Assessments of Products

The department does not assess products used in construction and maintenance projects after they are added to its preapproved product list to help it identify problem products and remove them from the list.

The Department Did Not Inspect All Airports and Heliports in the Required Time Period

Inspections for 77 airports were overdue from one month to more than two years. Licenses for 48% of the 93 heliports were from one month to seven years past their expiration date. When inspections are not timely, problems such as obstacles and hazardous airport runway or heliport pad conditions may not be discovered.

The Department Recertified Disadvantaged Business Enterprise (DBE) Vendors Without Verifying Financial Information

Vendors' personal financial statements, needed to determine if the vendor is eligible to be a DBE, were missing supporting documentation. Unless DBE vendors are monitored more closely, the department risks certifying and recertifying vendors that are not in compliance with department policies and federal regulations.

The Department Is Not Evaluating the Cost-Effectiveness of Contracting Maintenance Work as Required by State Law

The lack of a formal assessment method may affect the department's ability to determine the most efficient means of obtaining maintenance services.

The Department Could Not Determine the Amount of Time Spent for the Planning and Design Phases of Some Projects

The department does not have a system that provides the planning and design time for all construction projects. Thus, the department cannot determine whether it is meeting its goal to decrease the amount of time a project takes from conception to completion.

The Department Has Not Updated the Long-Range Transportation Plan as Required by Statute*

It is important to update the long-range plan because changes could affect the state's long-term transportation needs and the department's and legislature's actions to address those needs.

OBSERVATIONS AND COMMENTS

The audit also discusses the following topics: a review of construction project files, the Roadway Maintenance System, and the Pavement Management System.

Waste and Abuse

The Waste and Abuse section, organized near the end of calendar year 2002, is focused on looking at waste and abuse or the potential for waste and abuse. According to *Government Auditing Standards* (the Yellow Book), "Abuse is distinct from illegal acts and other noncompliance. When abuse occurs, no law, regulation, contract provision or grant agreement is violated. Rather the conduct of a government program falls far short of societal expectations for prudent behavior." The section produces special reports highlighting areas where state agencies have not acted in the best interest of the state. The special reports are generally briefer than our audit reports. Members of this section look at issues with only one or two objectives instead of the more comprehensive scope addressed in traditional performance audits, but often cover the same issue in numerous state agencies. We place a premium on flexibility. Topics for the Waste and Abuse section projects may be originated by any source, including the Comptroller of the Treasury, the Director of State Audit, management and staff of any division of the Comptroller's Office, a legislator, someone in another part of state government, or someone outside of state government.

The first report from the Waste and Abuse section, "Issues Related to Office for Information Resources' ITPRO Contracts," was released in April 2003. The report found excessive overbillings by the Department of Labor and Workforce Development, that the use of ITPRO contractors by state agencies is not cost-effective to the state, that agencies submitted poorly defined statements to justify the use of contractors, and that supervisory methods may effectively make the contractors state employees.

Special Investigations and Information Systems



Glen McKay, Ph.D., MBA, CIA, CFE, CISA, CGFM
Assistant Director

Authority to conduct special investigations is provided in part by Sections 8-4-201 through 8-4-208, *Tennessee Code Annotated*. The Special Investigations Section gathers information and evidence resulting in prosecutions and recovery of funds and coordinates the efforts of other agencies involved in the investigation. The investigators assist local district attorneys general, Tennessee's Office of the Attorney General, the Office of the United States Attorney General, and the Tennessee Bureau of Investigation.

Investigative reviews are initiated as a result of information discovered during audits by the Department of Audit and through information from individuals or other departments and agencies. The matters investigated during the fiscal year ended June 30, 2003, ranged from embezzlement of public funds to abuse of public resources. Investigations were completed on matters at the state level as well as matters at the local level. Investigators often found that losses were incurred as a result of weak internal control or ineffective management.

Our investigative reviews resulted in the recovery of \$100,250 during fiscal year 2003. As a result of the exposure of their activities, two state employees were terminated from employment with the state.

Since October 1983, the Department of Audit has provided a toll-free hotline for reporting fraud, waste, and abuse of government funds and property. Periodicals throughout Tennessee publish information to alert citizens to the hotline and encourage them to call (800) 232-5454 to report wasteful, inefficient, or fraudulent activities. In addition, agencies receiving community grant funds are required to display in a prominent

place signs calling attention to the hotline. Since its inception, the hotline has received 9,202 calls, including 589 calls between July 1, 2002, and June 30, 2003. Of the 589 calls, 141 concerned allegations of fraud, waste, or abuse. The substantive calls—those relating to fraud, waste, or abuse—concerned a wide range of entities, including municipalities, counties, state agencies and departments, and federal agencies and departments. A more detailed analysis is below. Substantive calls are investigated by the Department of Audit or referred to the appropriate state agency or program.

Of the 141 calls referred for action, responses have been received on 119, and these are considered closed. The remaining 22 continue to be considered open.

The remaining 448 calls have not been acted on because they were either repeat calls or were not relevant to the purpose of the hotline. Calls in the latter group include wrong numbers, hang-ups, general inquiries about the hotline, and requests for service provided by other agencies, such as tax assistance. Where applicable, the callers are referred to the appropriate agency or department that can provide assistance.

Results of Hotline Calls	The following are summaries of the results of the hotline calls upon which corrective action was taken by the subject agency for the year ended June 30, 2003.
Transportation – Vending Machine Failure to Provide Refund	The caller alleged a vending machine did not provide a refund for its machine at a rest stop. The department contacted the caller and provided the caller with the telephone number of the vendor.
Transportation – Unclean Rest Area	Caller alleged restrooms at a rest area were unclean. Review resulted in the removal and retraining of the employee that was on duty at the time of the call. Management advised all employees to make sure bathrooms are checked upon entering and leaving their shifts.
Health – Client Mistreatment	Caller alleged staff at alcohol and drug treatment center mistreated clients and served food that was past expiration dates. Review determined improprieties that led to employee terminations and a referral to the Board for Licensed Professional Counselors. The review also determined that some packaged food items were in stock beyond their expiration dates. Management was informed that failure to maintain appropriate food for the clients could be justification for revocation of a food service license. Management agreed to check all food items and remove expired items.
Health – Excessive Wait	Caller alleged that she was required to wait an excessive amount of time at a health clinic to receive test-work results. Review resulted in the development of a “fast track” process for those customers only seeking test results.

Health – Rude Employee	Caller alleged rudeness and unprofessional conduct by an employee at a Health Department. Management personally contacted complainant, and apologized for the incident. Management held a meeting with staff to reiterate the importance of proper behavior and to emphasize failure to do so could result in disciplinary action.
Health – Rude Employee	Caller alleged rudeness by a clinic employee. Review determined employee was rude to caller. Management apologized to caller.
Finance and Administration, Division of Mental Retardation – Failure to Pay Residents	Caller alleged entity was not reimbursing residents that work in the entity’s workshop. Review discovered unintentional errors in calculating payment for employees. Review requested an action plan be written to correct the problem, and the entity submitted such action plan.
Finance and Administration, Division of Mental Retardation – Misappropriation and Forgery	Caller alleged entity misappropriated personal funds of residents. Review determined allegations of misappropriation and forgery were correct. Recommended criminal charges be considered.
Finance and Administration, Division of Mental Retardation – Misappropriation	Caller alleged entity misappropriated personal funds of client. Review determined that entity did not have the authority to charge the client for the replacement of an item broken by client. Review recommended reimbursement.
Aging – Nepotism	Caller alleged director of agency under the commission hired her daughter in a position that director supervises. Review resulted in the termination of the director’s daughter.
County Audit – Improper Use of County Supplies	Caller alleged the improper use of county supplies on private property. Review determined county was operating under an unwritten policy regarding maintenance of county roads. Review recommended developing a formal written policy concerning the circumstances required before the Highway Department would enter and/or work on private property.
Human Services – Rude Employee	Caller alleged employee was rude to her. Management addressed complaint with employee and discussed appropriate customer service issues. Management agreed to monitor the employee.
Human Services – Rude Employee	Caller alleged employee was rude to her. Management acknowledged receipt of similar complaints. Management began progressive discipline and indicated complaint in a performance evaluation.
Human Services – Rude Employee	Caller alleged employee was rude to her. Because the caller did not specify the employee, management discussed proper customer service at a subsequent staff meeting.
General Services – Misuse of State Vehicle	Caller alleged that she saw a state vehicle drop children off at school. Review determined that employee with state assigned vehicle did drop children off at school in violation of state policy. Management verbally reprimanded the employee.

General Services – Misuse of State Vehicle	Caller alleged that she saw a state vehicle with children in it at a restaurant on a weekend. Review revealed that employee did use her assigned state vehicle for personal use. Management reminded all employees that state issued vehicles are not to be used for personal purposes. Management implemented controls by requiring employees to justify obtaining state vehicles to keep over the weekend.
Environment and Conservation	Caller alleged wrongdoing at a state park. Review resulted in reclassification of positions that would alleviate the concerns of the complainant.
Labor – Unemployment Fraud	Caller alleged an individual was receiving Unemployment Insurance Benefits while he was incarcerated. Review determined that the claimant was incarcerated when he certified his eligibility for Unemployment Benefits. Review determined that the claimant fraudulently received benefits totaling \$2,301. Agency has begun collection process and has recommended the matter to the District Attorney's Office.
U.S. Health & Human Services	Caller alleged that a teacher slapped a child at a Head Start facility. The teacher was suspended and recommended for termination. The teacher resigned prior to termination.

Table 1: Analysis of Substantive Hotline Calls

<u>Agency Involved</u>	<u># of Calls</u>	<u># Responded</u>	<u># Outstanding</u>
<u>Local Government</u>			
Municipal Audit	1	0	1
<u>County Government</u>			
County Audit	3	3	0
<u>State Government</u>			
Human Services	33	32	1
Health	25	24	1
State Audit	17	17	0
Education	9	8	1
Mental Health and Developmental Disabilities	9	5	4
Finance and Administration	7	4	3
Transportation	5	4	1
Commerce and Insurance	4	0	4
Aging	3	2	1
Board of Professional Responsibility	3	3	0
General Services	3	2	1
Children's Services	2	1	1
Environment and Conservation	2	2	0
Labor and Workforce Development	2	2	0
Tennessee Bureau of Investigation	2	2	0
Tennessee Housing Development Agency	2	2	0
Administrative Office of the Courts	1	1	0
Board of Probation and Parole	1	1	0
Personnel	1	1	0
Revenue	1	0	1
Secretary of State	1	1	0
Tennessee Corrections Institute	1	1	0
Tourist Development	1	0	1
<u>Federal Government</u>			
Health and Human Services	1	1	0
Housing and Urban Development	<u>1</u>	<u>0</u>	<u>1</u>
Total	141	119	22

Special Investigations

The Special Investigations Section's contribution to the state is significant in that the section exposes abuses of public property and funds and, when possible, aids in the recovery of funds lost through illegal activities. Furthermore, as a result of our special investigative reviews, agencies that have been the victims of abuse are able to develop better controls to prevent, or at least deter, future occurrences of fraud, waste, or abuse.

Results of Investigations

The following are summaries of the results of the special reports released during the year ended June 30, 2003.

Tennessee Department of Mental Health and Developmental Disabilities, the Tennessee Department of Health, and the University of Tennessee – Review of Issues Regarding an Employee's Credentials and Positions Held With State Departments and the University of Tennessee
October 2002

The issues reviewed spanned a two-year period from Ms. Pamela Reed's completion of her requirements for a doctorate of jurisprudence at the UT College of Law on May 14, 1999, to her resignation from UT on June 13, 2001. The central issue relating to Ms. Reed's moves through two state positions, the fellowship program with UT, and finally to her appointment as executive director of a research center at UT at a salary of \$75,000 within this two-year period, was whether outside individuals or those in high positions in state government or at UT might have improperly pressured other individuals to act in furthering her career. This review determined that except for her final appointments at UT, Ms. Reed's employment in various state positions was not the product of any outside or improper influence but the result of negative interactions between Ms. Reed and her various supervisors and colleagues.

This review determined that the Department of Mental Health, the Department of Health, and UT failed to perform thorough checks of Ms. Reed's employment history and failed to discover that her resume contained some falsifications. A thorough check of Ms. Reed's past employment listed on her resume should have given state and UT officials concern about hiring her.

Although Ms. Reed was employed by the Department of Mental Health as an Attorney III, based on presently available information, Ms. Reed failed to inform Department of Mental Health officials that she did not receive her law license in 1999. In addition, Ms. Reed apparently represented the state in legal proceedings without a license to practice law.

From the information gathered during this review, it does not appear that any improper influence from anyone was a factor in Ms. Reed's lateral move to the Department of Health.

Although Ms. Reed's employment record at UT reflected numerous problems between her and other individuals, Dr. Gilley, as the university's president, was interested in being a "mentor" to Ms. Reed and furthering her career. Under the circumstances, her appointment as executive director of the UT Center for Health Sciences Research

appears highly suspect and influenced, to some degree, by their personal relationship.

Dr. Gilley resigned as president of UT on June 1, 2001. The university received Ms. Reed's resignation on June 13, 2001.

The results of this review were referred to the Office of the State Attorney General and to the District Attorney General Offices in Davidson and Knox Counties. The District Attorney General of the Twentieth Judicial District (Davidson County) has declined to prosecute. The matter is still under review by the other offices.

Ms. Reed has subsequently filed complaints against the Division of State Audit and UT in Circuit Court for Davidson County and with the State of Tennessee Claims Commission.

**Department of
Environment and
Conservation, Division of
Solid Waste Assistance –
Review of Improper Grant
Reimbursement Claims
Submitted by Agricenter
International, Inc.**

November 2002

Agricenter received a TDEC Innovative Technology (landfill) Grant in fiscal year 1997 in the amount of \$370,000 solely to purchase an innovative material, a blended soil aggregate produced from a byproduct of the processing of cottonseed. This material was purchased from Extrusion Technologies, Inc., for the purpose of capping the Shelby County landfill in place of topsoil or clay.

This review was initiated after Extrusion Technologies alleged that Agricenter had not paid it for services it had provided. At that time in March 1999, TDEC had paid Agricenter a total of \$768,000 (\$370,000 in reimbursements for expenses allegedly incurred under the TDEC landfill grant and \$398,000 in reimbursements for expenses allegedly incurred under a TDEC recycling grant).

Our review of the landfill grant revealed that in 1997, Agricenter's president, with assistance from the president of Extrusion Technologies, misrepresented the true cost of the material to TDEC. As represented to TDEC during the negotiations and documented in Agricenter's proposed landfill grant budget, Agricenter's cost for the material would be \$385,000 (110,000 cubic yards @ \$3.50 per cubic yard). In fact, Agricenter and Extrusion Technologies had previously negotiated a side agreement for Agricenter to purchase the material from Extrusion Technologies for only \$185,000 (\$1.68 per cubic yard) and have it delivered to the landfill for \$55,000 (\$0.50 per cubic yard). After the start of the grant period, January 1, 1997, Agricenter immediately submitted an invoice to TDEC for \$385,000. There did not appear to be any business reason for Agricenter to submit the overstated invoice other than to divert grant funds to unjustly enrich Agricenter.

In regard to the actions of TDEC staff concerning the landfill grant contract, this review determined that department staff acted in good faith. TDEC staff had no reason to suspect that the original invoice of \$385,000 did not represent Agricenter's true costs.

Our report recommended that Agricenter repay TDEC a total of \$421,917 relating to overpayments involving both the landfill grant and the recycling grant.

In light of this and other misrepresentations made by Agricenter's representatives, we submitted our findings to the Office of the State Attorney General and the Office of the District Attorney General in Shelby County. On July 23, 2002, Agricenter's president, Extrusion Technologies' president, and Agricenter's external auditor were indicted on charges of theft of property and conspiracy to commit theft. On December 9, 2003, a Shelby County jury found all three defendants not guilty on all charges.

Information Systems

The Information Systems (IS) section provides three basic services: data retrieval, IS systems review, and computer forensic analysis.

Data Retrieval

The data retrieval staff provide information for audit field work. They write computer programs to provide information from the state's centralized accounting system, individual agency service delivery systems, and college and university transaction files. Various statistical sampling techniques, together with stratification and summary reports, provide the auditor a statistical basis on which to evaluate an entity's operations. Data retrieval staff also produce listings and perform comparisons and other procedures to detect errors or irregularities. Working closely with other audit staff, retrieval staff develop new computer-assisted audit techniques.

The IS section develops automated techniques to reduce costs and improve efficiency. The retrieval and review staff work with the financial and compliance auditors to create computer-assisted audit techniques (CAATs) that use computer programs to perform portions of the audits now done manually. To expand its capability to perform CAATs, the division has implemented Audit Command Language (ACL), data analysis and reporting software. ACL enables nontechnical auditors to perform sophisticated queries and analyses of financial transactions. Because ACL's capabilities are audit specific, yet still highly flexible, the software allows auditors to readily organize and evaluate information embedded in complex systems. IS audit staff provide support in the migration of CAATs from the mainframe to the financial auditors' personal computers.

Information Systems Review

The IS review staff are responsible for obtaining and documenting an understanding of the internal control structure in the computerized accounting and management information systems of entities undergoing financial and compliance audits. These entities include state agencies, colleges and universities, and quasi-governmental organizations. The IS staff review the general and application controls within data processing systems when those systems significantly affect the auditee's operations. The results of these reviews are included in the financial and compliance audit

reports. The individual computer centers for various state agencies are audited according to generally accepted government auditing standards. The IS section also conducts Data Reliability Reviews on both financial and program administration systems. These reviews are designed to assess the reliability of key elements of the application's computer processed data, assess the implementation and effectiveness of user control procedures (reconciliations and manual checks to ensure that data is complete and accurate), and to assess the manual follow-up procedures (procedures in place for error correction and review). The procedures conducted are based on the GAO's supplement to *Government Auditing Standards*, *Assessing the Reliability of Computer-Processed Data*, and the AICPA's *Audit Guide, Consideration of Internal Control in a Financial Statement Audit*.

Computer Forensic Analysis

The IS section provides services in the area of computer forensic analysis. Evidence of fraud and abuse may be found on subjects' computers, and the IS section works in support of the Investigation section to acquire, identify, and obtain this evidence. The section utilizes specialized software and hardware to recover evidence of official misconduct by state employees and in support of civil or criminal action against persons or entities engaging in illegal activities resulting in damages to the state.

Developments

The IS audit staff recognize that as computer-based systems become more commonplace, all auditors will need increased technical skills to perform their jobs. Toward that end, the IS section has been heavily involved with in-house training and for several years has taught classes on computer-assisted audit techniques, specialized audit software, auditing automated financial management systems, and computer forensic investigation techniques. In addition, information is exchanged through contacts with other state audit organizations for ways to improve IS audit support.

In a new initiative, the IS section is developing a computer network laboratory to assist in the development and performance of network vulnerability assessments to help ensure the security of state computer systems and data.

Legislative Liaison

The Comptroller's Office provides staff to the Senate and House Finance, Ways and Means Committees for assistance with fiscal and budget information. In addition to furnishing information, the staff produces three fiscal publications for distribution to legislators and their constituents and other government agencies.

The *Fact Book*, first prepared in 1987, is an annual, pocket-sized publication that is a compilation of budget information and facts about major departments of state government. It also includes federal, state, and local budgets and graphs; revenue schedules; and various national and state data comparisons.

Analysis of Expenditures and Positions and Selected Fiscal Data, an annual publication since 1981, presents comparisons of budgets and authorized positions by showing the amount and percentage of growth over a five-year period for each department of state government. In addition, the approximately 110-page publication presents fiscal data for various state programs for the same period.

County-by-County Analysis consists of 95 sets of schedules (one set of nine schedules for each county) that detail by major programs the estimated state dollars benefiting the residents of a county. State government agencies furnish basic data for the schedules while the Division of State Audit provides significant personnel support for the project. *County-by-County Analysis* has been compiled each year since 1977.

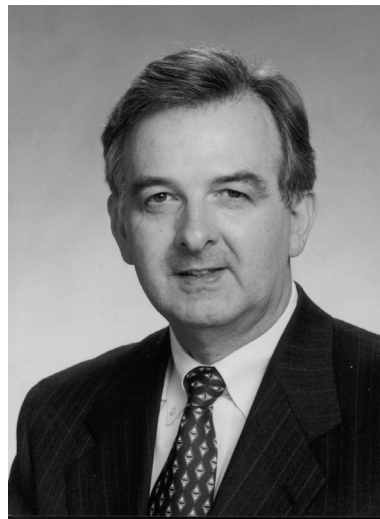
Division of County Audit



Richard V. Norment
CIA, CGFM
Assistant to the Comptroller



Arthur L. Alexander, CGFM
Director

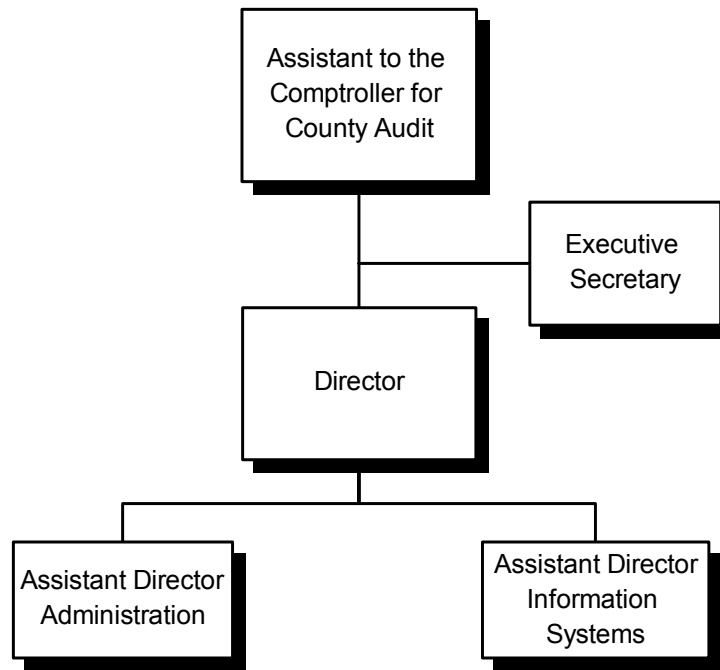


Bob Powell, CGFM
Assistant Director
Administration, Training, & County
Budget Assistance



Jim Arnette
CISA, CGFM, CCP
Assistant Director
Information Systems

Division of County Audit



The Department of Audit, through the Division of County Audit, is responsible for the annual audits of all 95 counties in the state. The division may conduct the audit of a county or accept an audit prepared by a certified public accountant provided the audit meets minimum standards for county audits established by the Comptroller of the Treasury. However, the Division of County Audit is required to prepare an audit in each county at least once every five years or to participate with, or monitor the audit with, the certified public accountant.

Financial and Compliance

The division presently conducts audits in 88 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.

Contract Audits

In the remaining seven counties, certified public accountants perform the audits. The division monitors these audits in accordance with a four-year monitoring plan that is updated annually. Typically, the division annually reviews working papers prepared by certified public accountants in two of the counties.

The division also approves the contracts of certified public accountants and reviews their audit reports and working papers. The

objective of this review is to ensure that in addition to the standards prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the United States Comptroller General, certain standards prescribed by the Comptroller of the Treasury have been followed.

Other Services

In addition to the basic post-audit function and the monitoring and review of audits by certified public accountants, the division provides other services. These services include providing assistance, upon request, to counties in resolving current problems with financial administration, as well as answering questions on various local governmental matters.

Scope of Activity

Post-Audit of County Governments

The Division of County Audit conducted audits in 87 of the state's 95 counties during the 2002-03 audit year. A minimum of ten offices or departments in each county was audited:

County Trustee	Circuit Court Clerk
County Executive	General Sessions Court Clerk
Department of Education	Chancery Court Clerk and Master
Department of Highways	Register
County Clerk	Sheriff

The audits of all offices were for the year ended June 30, 2002.

The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment. Approximately ten weeks of field work are required, including audit review and supervision by an auditor 4 and/or audit manager. The draft audit reports are reviewed in the Nashville office, then printed and released. The entire process is concluded within approximately four months from the date of initial field work.

The division also prepares audits of two special school districts and performs special audits and reviews as requested or as deemed necessary.

Information System Review

Most county government offices and departments in Tennessee have automated all or a portion of their daily operations. The information system (IS) review section is responsible for conducting reviews of those computer-based accounting and information systems to determine whether an entity's existing procedures and controls provide adequate assurance of data accuracy and financial and operating statement reliability. An assistant director supervises this section's IS audit manager and six IS auditors, who are assigned to different areas of the state.

An IS systems review consists of a review of the general and application controls of a county's computer hardware and computerized accounting and information systems. Findings resulting from an IS review are discussed with the appropriate officials and presented in a report on the internal controls regarding computer operations in the county. The IS findings also may be included in the county's annual financial report.

IS systems reviews were conducted in 36 counties during the year ended June 30, 2003. The division anticipates that IS reviews will be conducted in 44 counties and two special school districts during the year ending June 30, 2004.

Budget Assistance

Several counties requested the division's assistance in preparing their annual operating budgets. This technical assistance normally requires five to ten working days. The division provided budget assistance to 44 counties during 2003.

Monitoring and Review of Contract Audits

A four-year monitoring plan is maintained by the division for counties audited by certified public accountants. The division will monitor audits of seven county governments during the next four years. The audit of Hamilton County was monitored for the year ended June 30, 2002, and the audits of Washington and McMinn Counties will be monitored for the year ended June 30, 2003.

The division reviewed 295 audit reports for the year ended June 30, 2002, submitted by certified public accountants for audits of county governments, authorities, boards, commissions, agencies, and special school districts. The division anticipates it will review 287 such reports for the year ended June 30, 2003.

Reviews of Funds Administered by District Attorneys General

During 2003, the division conducted reviews of District Attorney General Funds, Judicial District Drug Task Force Funds, and other funds the district attorneys general administer in the state's 31 judicial districts. Each review covered the period July 1, 2001, through June 30, 2002. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys' offices.

Reviews of County Correctional Incentive Program (CCIP)

Tennessee Code Annotated, Title 41, Chapter 8, referred to as the County Correctional Incentive Act, provides counties financial incentives to house nondangerous felony offenders at local correctional facilities. The purpose of the program is to mutually benefit state and county governments by helping to alleviate overcrowding in state correctional facilities and reduce high operating costs, and to assist counties in upgrading local correctional facilities and programs. Counties participating in the program may be reimbursed at either a minimum statutory daily rate or a rate based on a county's "reasonable allowable cost" to house convicted felons.

The Division of County Audit conducts reviews of counties participating in the County Correctional Incentive Program. In performing the reviews, the division tests the county's financial records and other supporting records pertaining to the Final Cost Settlement Reports. Testwork is also performed on the Correction Facility Summary Reports and State Prisoner Reports. Reviews were conducted in 23 detention facilities during the 2002-03 audit year. As a result of the reviews, it was determined that the state had overpaid \$240,978 for nine facilities. The reviews of 13 facilities resulted in no over- or underpayments. The record-keeping system for one facility did not allow us to make a reasonable determination of over- or underpayments, and a final cost settlement for these facilities was at the discretion of the Department of Correction. Subsequent monthly claims filed by the affected counties have been or are being adjusted to reflect the underpayments or overpayments.

**Financial and Compliance
Audit Process**

The Division of County Audit performs the following general procedures as part of the financial and compliance audit process:

- Evaluates the entity's existing internal controls in the appropriate areas of operation.
- Confirms the accountability for receipts by examining, for example, tax rolls, state and federal revenue data, and letters of inquiry.
- Determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records.
- Determines the authorization for transactions by reviewing the minutes of meetings of county commissions, school boards, highway commissions, and various committees such as budget and finance, and purchasing.
- Determines compliance with federal regulations and state and local laws.
- Obtains management's representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure.
- Evaluates financial statement presentation to determine conformity with generally accepted accounting principles.
- Evaluates the validity of all evidence obtained throughout the audit process in order to formulate an opinion on the financial statements.

**Results of Audits and
Reviews****Financial and Compliance Audits**

Audits of financial transactions for the year ended June 30, 2002, conducted by the Division of County Audit disclosed cash shortages in the following offices or funds:

Benton County Sheriff	\$4,138
Carter County Assessor of Property	1,200
Decatur County Sheriff	438
Dyer County School Department	3,504
Fayette County School Department	16,371
Hickman County Clerk and Master	810
Houston County Executive	10,290
Madison County Clerk and Master	1,159
Overton County Executive	10,610
Pickett County Circuit Court Clerk	407
Pickett County Sheriff	648
Rhea County Sheriff	12,769
Union County General Sessions Court Clerk	250
Union County Sheriff	<u>1,372</u>
Total Cash Shortages	<u>\$63,966</u>

The audits conducted by this division disclosed fund deficits of \$110,574,036 in 50 governmental fund accounts in 37 counties. These audits also reflected fund deficits totaling \$13,532,225 in ten enterprise funds and five internal service fund accounts in 15 counties.

The division's examination of offices and departments in 87 counties resulted in several recurring audit findings summarized below. The number of counties in which the finding occurred is shown in parentheses following the finding.

- A system of central accounting, budgeting, and/or purchasing was not in use, frequently resulting in inefficient and uneconomical operations of various county offices and departments. (57)
- Property records and a self-balancing group of accounts for all general fixed assets were not maintained in accordance with generally accepted accounting principles. (77)
- Fund expenditures exceeded appropriations approved by the local governing body. (7)
- Purchasing procedures were not in accordance with controlling statutes. (35)
- Clerks of court failed to prepare and/or reconcile a trial balance of execution docket balances with cash journal accounts. (13)

- Drug control funds were not administered in compliance with statutory provisions. (11)
- Funds were not deposited within three days of receipt, as required by state law. (29)
- Depositories for county funds were not required to place securities in escrow in sufficient amounts to adequately protect funds on deposit, as required by state law. (6)
- Loans, notes, or lease-purchase agreements were not approved by the County Commission and/or director of Local Finance. (15)
- Fees and commissions earned by the county clerk, clerks of court, and register were not remitted to the county in compliance with controlling statutes. (10)
- Inventory records of assets owned by the county were not maintained, as required by generally accepted accounting principles. (35)
- Deficiencies occurred in accounting/recordkeeping. (80)
- An internal control weakness resulted due to the inadequate segregation of duties for accounting personnel. (79)
- Purchase orders were not used or were not issued properly in the purchasing process. (49)
- The Sheriff's Office had deficiencies in prisoner booking procedures. (6)

Some of the specific findings disclosed in audits and reviews during the past year are summarized on the following pages.

Bedford County Executive
For the Year Ended June 30, 2002

The office paid state agencies' expenditures that should have been channeled through the state's accounting system. Deficiencies occurring as a result of this practice include the office's use of an unauthorized outside bank account for paying invoices for a children's foster care program and the direct payments of salary supplements to the local agricultural extension office instead of properly channeling the payments through the state's accounting system.

Carter County Executive and Property Assessor
For the Year Ended June 30, 2002

Discrepancies in travel payments to a Property Assessor's Office employee while the employee was on extended leave before retirement resulted in a cash shortage of \$1,200 in the county's General Fund.

Dickson County Director of Schools
For the Year Ended June 30, 2002

The office made improper general journal entries totaling \$727,514 to the General Purpose School Fund in June 2002. These entries were made solely to reclassify expenditures so that expenditures would not exceed appropriations. Consequently, the office's records did not

accurately reflect the purposes for which school funds were expended.

Dyer County Director of Schools For the Year Ended June 30, 2002	The high school cafeteria had a cash shortage of \$3,504 at June 30, 2002, resulting from the cafeteria manager's theft of daily cash receipts throughout the school year. The schools director terminated the cafeteria manager, who later made payments to the Cafeteria Fund that reduced the cash shortage to \$3,085. This finding has been reviewed with the District Attorney General's Office, and the office is still seeking reimbursement for the remaining cash shortage.
Fayette County Director of Schools For the Year Ended June 30, 2002	At June 30, 2002, the office had a cash shortage of \$16,371, resulting from false endorsements on school warrants and improper telephone charges and purchases for the Motivating People and Communities program. The director of this program resigned from his position and was later indicted on charges of theft of property and forgery. After pleading guilty and agreeing to pay the county \$16,050, the program director died, leaving the cash shortage unpaid.
Fentress County Commission For the Year Ended June 30, 2002	The county purchased a used fire truck from a man appointed to be the county's agent in purchasing fire department equipment. Title documents disclose that the agent bought the fire truck for \$10,000 shortly before selling it to the county for \$20,000. Furthermore, no competitive bids were solicited, as required by state statute, and the County Commission voted to purchase this truck as an emergency purchase without providing an explanation of why the purchase was considered an emergency. We have reviewed this matter with the District Attorney General's Office.
Houston County Executive For the Year Ended June 30, 2002	The county's General Fund and Solid Waste/Sanitation Fund had cash shortages of \$1,079 and \$7,157, respectively, at June 30, 2002. Subsequent to that date, the General Fund incurred an additional cash shortage of \$2,053, bringing the total cash shortage in the General Fund to \$3,132 and the total cash shortage in both funds to \$10,290. These shortages resulted from the payment of fraudulent travel claims, payments to individuals for work not performed, improper payments to employees, payroll overpayments, and payments to employees that exceeded amounts authorized by the personnel policy. Because of the lack of internal controls and documentation, we were unable to determine the full extent of the cash shortage, and we were unable to determine the propriety of some transactions. On August 7, 2002, the county executive and another individual deposited \$2,210 with the county, reducing the cash shortage to \$8,080.
Lawrence County Director of Schools For the Year Ended June 30, 2002	In August 2002, the county's Board of Education adopted a policy providing that "the local bidder shall be considered if bid amount is within 1% of low bid (maximum \$500) and all specifications have been met." We noted two instances in which the low bidder did not receive the bid award based on this policy that, in effect, defeats the purpose of competitive bidding by giving preference to local vendors.

Madison County Former Officials For the Year Ended June 30, 2002	Four former county officials—the mayor, clerk and master, general sessions judge (division II), and circuit court clerk—received credit for unused sick leave toward their retirement. County officials cannot accrue sick or vacation leave, and the Tennessee Consolidated Retirement System (TCRS) does not recognize accrued sick leave of county officials as a credit toward retirement. The county’s personnel director contacted TCRS regarding what action should be taken to resolve this matter.
Overton County Executive For the Year Ended June 30, 2002	The Solid Waste/Sanitation Fund had a cash shortage of \$10,610 on June 30, 2002, resulting from tipping fees and sales of recyclable materials not being deposited with the county trustee or otherwise accounted for. Our examination disclosed serious internal control weaknesses over cash collections and computer applications that allowed this cash shortage to occur and go undetected for several years. The District Attorney General’s Office and the Tennessee Bureau of Investigation have been notified of the missing cash collections, and an investigation is in progress.
Putnam County Clerk and Master For the Year Ended June 30, 2002	An employee stole \$3,594 by cashing checks made payable to the office. Upon discovery of the missing funds, the clerk and master contacted our office and fired the employee, who admitted to the theft. Because personnel at a local bank allowed the employee to personally cash checks made payable to the Clerk and Master’s Office, the bank assumed responsibility for the stolen funds and reimbursed the office for the total amount stolen. We have reviewed this matter with the District Attorney General’s Office.
Putnam County Property Assessor For the Year Ended June 30, 2002	The property assessor certified over 900 changes to the 2001 tax rolls, giving reasons for changes to land, improvement, and market values that relied on the assessor’s judgment. Many of these changes did not appear to be allowed by state statute.
Rhea County Sheriff For the Year Ended June 30, 2002	At June 30, 2002, the Sheriff’s Office had a cash shortage of \$12,769 resulting from the failure to report and pay telephone commissions to the county. State statute requires the sheriff to turn over all fees and commissions to the county’s General Fund and requires salaries and operating expenses of the Sheriff’s Office to be paid from the General Fund. Staff informed us that proceeds from inmate telephone service were used to pay office expenses. However, these expenditures have been reflected as a cash shortage since they were not appropriated by the county commission. We have reviewed this cash shortage with the district attorney general, sheriff, and other county officials.
Sequatchie County Executive For the Year Ended June 30, 2002	Several improprieties were discovered in the sale/transfer of a county vehicle involving the county executive, sheriff, and a brother of a Sheriff’s Office employee. The truck was sold without the office’s taking measures to ensure that the county was compensated adequately for the vehicle. Moreover, the transfer of the vehicle from the county to a brother of a Sheriff’s Office employee and then to the

sheriff appears to have been done to circumvent the provisions of a state statute governing county employees' purchases of surplus property. On June 4, 2002, the Sequatchie County Grand Jury indicted the county executive on charges of theft, conspiracy, and official misconduct, and indicted a Sheriff's Office employee on charges of conspiracy. The Tennessee Bureau of Investigation has confiscated the vehicle and is holding it pending the outcome of the cases.

Smith County Executive For the Year Ended June 30, 2002	Our audit revealed several deficiencies in the office's personnel records. Employees' leave records consisted only of vacation, sick, and compensatory leave used during the month and did not document employees' leave earned during the month and their beginning and ending balances. Time and attendance records were not maintained for employees of the Offices of Assessor of Property, Trustee, and Election Registrar. In some instances, multiple employees were paid from a single budgetary line item, and in one instance, an employee was paid from multiple budgetary line items. Two employees were paid \$100 each in Christmas bonuses that were not authorized by the county's personnel policies. Also, two employees received overtime pay of \$550 without any documentation of the overtime hours worked.
Sullivan County Director of Schools For the Year Ended June 30, 2002	The General Purpose School Fund had a cash overdraft of \$683,309 at June 30, 2002. This cash overdraft is attributed to deficiencies in preparing and monitoring the budget for the fund. Actual revenues of the General Purpose School Fund were less than budget estimates by over \$2,000,000 for the year ended June 30, 2002, and budget estimates for revenues were not monitored and adjusted during the year when it became apparent that certain revenues would not be received at the estimated levels.
Union County Sheriff For the Year Ended June 30, 2002	On August 31, 2002, the office had a cash shortage of \$1,372 that resulted from the failure to properly receipt collections, the failure to deposit funds in compliance with the three-day deposit law, and other irregularities.
White County Sheriff For the Year Ended June 30, 2002	Our audit revealed several deficiencies in commissary operations. Official, prenumbered receipts were not issued, as required by state statute. Commissary transactions were not reflected in the office cash journal and were not reconciled with commissary computer data. General ledger accounts were not maintained for commissary operations; instead, various subsidiary accounting records were maintained for commissary operations. A trial balance of inmate account balances was not maintained on a current basis. Sales tax was not collected and reported on commissary sales to inmates. An inventory of commissary merchandise was not maintained. In addition, profits from commissary operations were not determined and remitted to the county, as required by state statute.

Wilson County Sheriff
For the Year Ended June 30, 2002

The sheriff did not comply with state law when entering into a five-year contract with a company for inmate telephone service, inappropriately used proceeds from the contract signing bonus to purchase equipment for the department, and did not submit to the county the commissions and signing bonus earned from this contract.

**Limited Review of the Office
of County Clerk of
Metropolitan Nashville –
Davidson County**
December 2002

In response to the county clerk's request for an audit of his office's banking practices and because of our concern about news reports concerning improprieties in the office, we and the Metro Internal Audit Division conducted a limited review of the Metro County Clerk's Office.

Our review concluded that an office employee purchased beer while using a metro government vehicle during working hours and either placed the beer in his personal vehicle in the office's parking lot or put it in an office refrigerator. This employee also took the county clerk's personal vehicle for service appointments and picked up prescriptions for the clerk and other office staff during working hours, activities outside his job responsibilities.

Our review further concluded that the county clerk used his office computer to communicate with his private business; did not procure banking services and check management services through the Division of Purchases, did not formally solicit competitive bids for these services, and did not have written contracts for the services; and held large amounts of cash (\$6,000 as of April 2002) from a metro agency in the office instead of depositing the funds to the office bank account.

Our report was transmitted to the mayor and other local officials for their review.

**Limited Review of the Office
of Juvenile Court Clerk of
Shelby County**
For the Period July 1, 2000, Through
June 30, 2002

Because representatives of the State Attorney General's Office expressed concerns regarding the way the Shelby County Juvenile Court Clerk's Office administered the Funds for Families Program, payroll transactions, and certain contracts, we conducted a limited review of the Juvenile Court Clerk's Office for the period July 1, 2000, through June 30, 2002.

Regarding the Funds for Families Program (a program established to identify and locate individuals for whom child support payments had been made but not delivered), we discovered that the office had over two million dollars in unclaimed court funds that were not remitted to the state Treasurer's Office, violating the Unclaimed Property Act, and the office had various deficiencies in administering funds to program recipients.

In the area of payroll, the office did not have documentation to support payments to a temporary employee and salary payments to the clerk's executive secretary, improperly paid an employee for a supervisor

position through overtime compensation, and paid an employee who was on indefinite suspension.

The office had deficiencies involving contracts. Contracts were not procured by the county's Purchasing Department, as required by county policies. The benefits of certain consultant work for the office—payments of \$63,581 and \$20,875—were questionable. Also, the office purchased a risograph duplicator machine for \$42,485 through a lease-purchase agreement that was not approved by the County Commission or mayor and was not processed by the county Purchasing Department. This risograph purchase was further determined to be a duplication of equipment.

Regarding travel and procurement card expenditures, the office had several deficiencies. Employees received funds improperly for travel claims and did not complete appropriate travel authorizations, claims, and logs in compliance with the county's travel policy. In addition, the office did not adequately document purchases made with procurement cards and did not use the cards in accordance with county policy.

Another area in which we found deficiencies involved cellular telephone expenditures. The office was delinquent in approving and submitting cell phone bills to the county Finance Department, entered into service agreements that significantly exceeded the office's needs, exceeded allowable minutes on one cell phone and incurred extra charges as a result, did not procure the cell phone agreement through the county Purchasing Department, and did not adopt written guidelines for cell phone use.

Finally, we found accounting deficiencies. Funds were not deposited to the office bank account within three days of collection, as required by state statute. The office used a signature stamp to affix the clerk's signature on checks, which weakens internal controls. Bank statements for the main operating checking account were not reconciled, and the office did not maintain general ledger accounts detailing accounting summaries of each account. In addition, the office had accumulated returned checks of \$13,947 over the years and had no policy for handling or writing off such checks.

The current juvenile court clerk is working to implement the recommendations of our report.

**Information System
Reviews**

The following findings resulting from the information system reviews occurred in several offices or departments.

- Various software applications did not have sufficient application controls.
- Copies of system backups were not stored in secure, off-site locations. Adequate file retention and system back-up

procedures are mandatory to guard against operational errors and disasters.

- A disaster recovery plan was not developed to assist the office or department in the re-creation of its data processing environment in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.
- Policies and procedures relating to routine computer operations were not documented. This documentation is needed to provide a basis for management control.

**County Correctional
Incentive Program (CCIP)
Reviews**

The costs to operate the correctional facilities were not reported in accordance with state guidelines for determining reasonable allowable cost. In some cases, unallowable costs were claimed, while in other cases allowable costs were not claimed. In numerous other cases, costs claimed were either more or less than the actual costs.

Division of Municipal Audit



Dennis F. Dycus, CPA, CFE, CGFM
Director

The Division of Municipal Audit ensures that annual audits, required by state statute, are performed for all Tennessee municipalities, public school activity and noncentralized cafeteria funds, utility districts, housing authorities, and certain nonprofit agencies receiving grants from the State of Tennessee. Also, as required by state statute, the division ensures that an agreed-upon procedures audit is performed for certain daycare providers receiving subsidy payments through the State of Tennessee. In addition, the division investigates allegations of misconduct, fraud, and waste in local governmental units other than counties, as well as nonprofit agencies receiving state grants, and performs investigative audits of the internal control structures and compliance of school activity and noncentralized cafeteria funds, utility districts, municipalities, and certain nonprofit agencies.

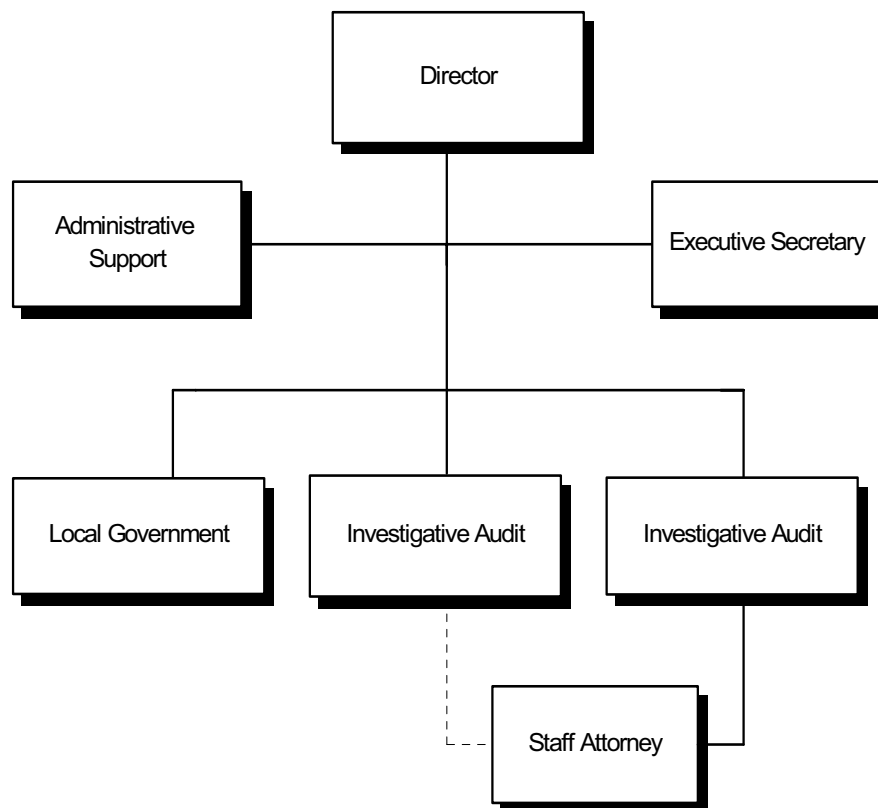
Audit Review Process

Local governmental units (other than counties) and nonprofit agencies contract with independent certified public accountants to perform annual audits of Tennessee's 346 municipalities, 101 city-related entities, 48 quasi governmental entities, 56 quasi nonprofit entities, 189 utility districts, 166 public school activity and noncentralized cafeteria funds, 85 housing authorities, 82 day care centers, and over 264 nonprofit agencies. The entities use standard contracts, prepared by the Comptroller of the Treasury, that must be approved by the Comptroller's designee in the Division of Municipal Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards or

agreed-upon procedures and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with certain other federal and state provisions.

The Division of Municipal Audit reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit or nonprofit agency fails or refuses to have an audit, the Comptroller may direct the Division of Municipal Audit, or may appoint a certified public accountant, to perform the audit. The division evaluates the audit working papers of certified public accounting firms that audit local governmental and nonprofit entities. If the firm's audit working papers are deemed substandard, the Comptroller of the Treasury takes appropriate action, which might include referral to the State Board of Accountancy. The division is responsible for monitoring over 4,560 nonprofit organizations that have received grants from the State of Tennessee; some of these organizations are required to have an audit of their entire organization. These audits are conducted by certified public accounting firms which contract with the division.

Division of Municipal Audit



Sections 68-221-1010 and 7-82-401g(1), *Tennessee Code Annotated*, require the Comptroller to refer financially distressed municipal wastewater and public utility districts to the state's Water/Wastewater Financing Board or the Utility Management Review Board. After reviewing the audit reports, the Division of Municipal Audit will refer financially distressed facilities to the appropriate board. The board then reviews the current financial condition of the facility and its proposed plan for eliminating its financially distressed condition. If the board finds the facility's plan unacceptable, the board will recommend an alternate course of action. During the year ended June 30, 2003, 25 municipal wastewater facilities were referred to the Water/Wastewater Financing Board, and 11 utility districts were referred to the Utility Management Review Board. As a result, several utility districts and municipal water and/or sewer systems are now operating or are on their way to operating on a financially sound basis.

Investigative Audits

The division investigates allegations of misconduct, fraud, and waste in local governmental units (other than counties) and certain grant fund recipients. Investigative audits are performed as a result of allegations received through the Department of Audit's toll-free hotline, routine audit reviews, and information received from certified public accountants or other state agencies. Upon completion of each examination, the Comptroller issues a report or letter presenting documented occurrences of improper activity and recommending corrective action. The report is forwarded to the State Attorney General and the local district attorney general for any legal action deemed necessary.

The division also conducts investigative audits that include a thorough review of the internal control structures and compliance with applicable laws. Municipalities are required by statute to maintain their records, at a minimum level, in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, prescribed by the Comptroller of the Treasury. Utility districts are required by state statute to follow the *Uniform Accounting Manual for Tennessee Utility Districts*, compiled by the Division of Municipal Audit. State statute requires schools to follow the *Internal School Uniform Accounting Policy Manual*, compiled by the Tennessee Department of Education, the Department of Finance and Administration, and the Division of Municipal Audit. At the conclusion of an investigative audit, the division publishes a report which identifies internal control structure and compliance weaknesses and recommends corrective action. The audits point out to officials the importance of sound internal controls and compliance with applicable laws and regulations.

The division routinely provides technical assistance to local government officials and certified public accountants. This assistance often requires detailed research of financial accounting concepts and state and federal statutes.

Audits and Investigative Audits

For the year ended June 30, 2003, the Division of Municipal Audit performed 1,439 reviews of audit reports for local governmental units (other than counties) and nonprofit entities. Fourteen investigative audits were released. The 14 investigative audits included 8 municipalities, 2 public schools, 2 nonprofits, and 2 utility districts. The majority of the investigative audits involved allegations of fraud, waste, and abuse and revealed weaknesses in internal controls, no controls, or potential problem areas that created an environment for fraud. During the 2003 fiscal year, investigative audits revealed losses of at least \$684,341 due to fraud. Illegal activities exposed by Municipal Audit investigations resulted in indictments of 9 individuals during the 2003 fiscal year, with a total of 150 counts.

Results of Investigative Audits

Cherokee Children and Family Services, Inc.

Our investigative audit revealed that on several occasions, the executive director, acting as an officer of Cherokee, apparently failed to act in the best interest of Cherokee. Some apparent miscalculation greatly benefited the executive director personally, at a substantial cost to Cherokee. In addition, our audit revealed that on several occasions, the Cherokee board of directors failed to act in the best interest of the agency. The investigative audit noted a number of apparently fraudulent transactions, including:

1. undocumented and unauthorized payment of \$147,000 to the executive director not in the best interest of the organization;
2. payment of “back rent” to executive director totaling \$470,000; and
3. apparent unauthorized bonus payments to executive director totaling \$100,000; net amount after taxes \$65,167.

In November 2002, the executive director and her husband were indicted by a federal grand jury on 25 counts, including embezzlement of public funds, money laundering, and filing false tax returns.

City of Morristown

Our investigative audit, in conjunction with a TBI and Morristown Police Department investigation, found that a former city clerk apparently misappropriated city collections totaling \$14,568. The clerk failed to deliver two deposits totaling over \$9,000 to the bank. The clerk also voided or reversed certain collections receipted on the city’s computerized accounting system, and failed to record some business license collections in the city’s records. Although some of the voided/reversed amounts were eventually deposited, the remaining voided/reversed amounts, as well as the unrecorded business license collections, were apparently retained by the clerk for her personal benefit. In June 2003, the Hamblen County Grand Jury indicted the former city tax clerk on 18 counts, including theft of property, forgery, and official misconduct.

New Market Utility District	From April 12, 2001, through December 18, 2001, the former office manager apparently misappropriated at least \$10,308 in cash collections from the district by falsifying daily collection records to reflect collection amounts that were lower than the actual collections and retaining the difference for his own use. Because the former office manager had complete control over the collection process, this apparent misappropriation was not detected timely. The former office manager admitted to taking utility district collections for his personal use. He was indicted on one count of theft, one count of official misconduct, and one count of forgery by a Jefferson County Grand Jury. The former office manager pled guilty to the charge and received a five-year sentence. He was ordered to pay restitution of \$19,551.
City of Millersville	Over a five-month period, a former dispatcher collected \$1,030 in traffic fines that were not deposited into a city bank account. The investigative audit also determined that \$360 in collections for an April 13, 2002, safety school was not deposited into a city bank account. Also, auditors were unable to account for the disposition of 18 traffic citations, which could represent up to \$927 in additional missing funds. In March 2003, a Sumner County Grand Jury indicted a former dispatcher for the City of Millersville on one count of theft over \$1,000.
City of Friendsville	The former city recorder was indicted and found guilty on two criminal counts related to a \$54,351 embezzlement at the city. The former recorder was sentenced to eight years. She was ordered to serve nine months in jail with the remainder to be served on community corrections.
Clarksville-Montgomery County Community Action Agency	A former intake clerk at the agency was indicted on 16 counts related to the \$31,860 embezzlement at the not-for-profit agency. On November 14, 2002, the former clerk pled guilty to theft over \$10,000. She was ordered to serve six years on judicial diversion and ordered to pay \$31,000 in restitution.
City of Whitwell and City of Dunlap	A former Whitwell police officer was indicted in April 2002 for theft over \$1,000. In September 2002, this individual pled guilty to the charged offense and was ordered to serve two years on judicial diversion and make restitution in the amount of \$2,069.
City of Ridgetop	On November 27, 2001, the Robertson County Grand Jury indicted a former city recorder on two counts of forgery over \$1,000. On July 26, 2002, the former city recorder pled guilty to both counts and received a sentence of two years on judicial diversion. The former recorder previously paid restitution to the city.
City of Lexington	The city's insurance agent was indicted on 94 counts, including mail fraud and money laundering. He is currently awaiting trial.

City of Rockwood

In a follow-up to the investigative audit that resulted in the indictment of three individuals, we discovered that the former parks and recreation director misappropriated additional city money. In June 2003, the Roane County Grand Jury indicted this individual on one count of theft over \$10,000.

Appendix

Recognition for Excellence In Financial Reporting

The Certificate of Achievement for Excellence in Financial Reporting, issued by the Government Finance Officers Association, is the highest form of recognition in government financial reporting. Attaining this certificate represents a significant accomplishment. The following Tennessee governments and entities received this award for the year ended June 30, 2002.

State of Tennessee
Anderson County
Blount County
Bristol Tennessee Electric System
City of Athens
City of Bartlett
City of Brentwood
City of Chattanooga
City of Cleveland
City of Columbia
City of Franklin
City of Germantown
City of Hendersonville
City of Johnson City
City of Kingsport
City of Knoxville
City of Lake City
City of LaVergne
City of Maryville
City of Memphis
City of Murfreesboro
City of Oak Ridge (37 awards)
City of Tullahoma
City of White House
Hamilton County
Knox County
Memphis–Shelby County Airport Authority
Metropolitan Government of Nashville and Davidson County
Metropolitan Knoxville Airport Authority
Metropolitan Nashville Airport
Morristown Utility Commission
Rutherford County
Shelby County
Tennessee Consolidated Retirement System
Tennessee State School Bond Authority
Town of Collierville
Town of Farragut
Town of Livingston
Town of Smyrna
Tri-Cities Airport Commission

Professional Recognition

During the year ended June 30, 2003, Department of Audit staff passed certification examinations for Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), Certified Government Financial Manager (CGFM), and Certified Professional Secretary (CPS).

Penny Austin	County Audit	CISA
Lana Bland	State Audit	CFE
Jennifer Cawthon	State Audit	CFE
Michelle Earhart	State Audit	CPA
Sherrie Gill	County Audit	CFE
Tushama Harden	State Audit	CPS
Jennifer McClendon	State Audit	CGFM
LaShanda Mott	State Audit	CFE
Sheilah Pride	State Audit	CFE
Lewis Robbins	Municipal Audit	CPA
Wendell Voss	State Audit	CISA
Patricia Wakefield	State Audit	CFE

Professional Certification

The department is proud of all its staff who have received professional certifications.

Certified Public Accountant**Division of State Audit**

Katherine Anderson	Deborah Loveless
Ron Anderson	Derek Martin
Mason Ball	Sammie Maxwell
Catherine Balthrop	Martha McClune
Elizabeth Birchett	Jay Moeck
Debra Bloomingburg	Karen Phillips
Gerry Boaz	Steve Phillips
Melissa Boaz	Robyn Probus
Walter Bond	Chuck Richardson
Charles Bridges	Julie Rogers
Edward Burr	Brent Rumbley
Mary Cole	Joseph Schussler
Donna Crutcher	Suzanne Smotherman
Michelle Earhart	Scarlet Sneed
Michael Edwards	Chas Taplin
William Hancock	Kandi Thomas
Gregg Hawkins	Judy Tribble
Arthur Hayes	Rebecca Troyani
Shirley Henry	Clare Tucker
Teresa Hensley	Stephen Velie
Marcia Holman	Wendell Voss
Bob Hunter	Patricia Wakefield
Aaron Jewell	Carla Wayman
Donna Jewell	Barbara White
Teresa Kennedy	Dan Willis
Herb Kraycirik	Britt Wood

Division of County Audit

Penny Austin	Kelley McNeal
Gene Autry	Jan Page
Jeff Bailey	Gary Ramsey
Nolan Bradford	Steve Reeder
Sharee Brewer	Anita Scarlett
Brad Burke	Tim Stansell
Bryan Burklin	David Sturtevant
Melissa Darby	Lester Tackett
Jerry Durham	Christy Tennant
Marie Elliott	Mark Treece
Michael Ford	Clifford Tucker
Amy Hembree	Andrew Way
Kevin Huffman	Kent White
Michael Hulme	Daniel Wilson
Wilma Johnston	Greg Worley
Joe Kimery	

Division of Municipal Audit

Robert Allen	Greg Lawrence
Rene Brison	Michael Mayhan
Rebecca Bush	Sheila Reed
Bill Case	Lewis Robbins
Dennis Dycus	Jean Suh
Iris Haby	Elaine Swyers
Philip Job	

Certified Fraud Examiner**Division of State Audit**

Mason Ball	Donna Jewell
Lana Bland	Temecha Jones
Melissa Boaz	Trey King
Walter Bond	Melissa Lahue
Ike Boone	Jacqueline Laws
Bridget Carver	Harry Lee
Jennifer Cawthon	Derek Martin
Tiffany Cherry	Sophia Massey
Donna Crutcher	Roshena May
Melinda Crutchfield	Mary McCalip
Cindy Dunn	Bob McCloud
Treesie Farmer	Glen McKay
Jonathan Gebhart	Jay Moeck
Shanta Griffin	Beth Pendergrass
LaToya Hampton	Steve Phillips
William Hancock	Scott Price
Drew Hawkins	Sheilah Pride
Gregg Hawkins	Robyn Probus
Arthur Hayes	Barbara Ragan
Amanda Hoback	Brent Rumbley
Aaron Jewell	Chas Taplin

Tammy Thompson
Judy Tribble
Rebecca Troyani
Clare Tucker
Inger Tyree
Helen Vose

Patricia Wakefield
Clementine Williams
Britt Wood
David Wright
Sonja Yarbrough

Division of County Audit

Jeff Bailey
Sharee Brewer
Rachelle Bunch
Rhonda Davis
Jerry Durham
Jerry Gallemore
Sherrie Gill

Wilma Johnston
Joe Kimery
Steve Reeder
David Sturtevant
Larry Taylor
Kent White

Division of Municipal Audit

Robert Allen
Rene Brison
Dennis Dycus

Philip Job
Michael Mayhan
Elaine Swyers

Certified Internal Auditor

Division of State Audit

Glen McKay

Division of County Audit

Brad Burke

Richard Norment

Certified Computing Professional

Division of County Audit

Jim Arnette

Certified Information Systems Auditor

Division of State Audit

James Falbe
William Hancock
Karen Masters
Glen McKay
Deborah Myers
Beth Pendergrass

Bob Rice
Chuck Richardson
Julie Rogers
Brent Rumbley
Wendell Voss
Dan Willis

Division of County Audit

Jim Arnette

Penny Austin

Certified Government Financial Manager

Division of State Audit

Dean Agouridis
Katherine Anderson
Ron Anderson
Mason Ball
Elizabeth Birchett
Debra Bloomingburg
Gerry Boaz

Charles Bridges
Edward Burr
Mary Cole
Donna Crutcher
Michael Edwards
Arthur Hayes
Shirley Henry

Teresa Hensley
Marcia Holman
Aaron Jewell
Diana Jones
Herb Kraycirik
Deborah Loveless
Derek Martin
Sammie Maxwell
Jennifer McClendon
Bob McCloud
Glen McKay
Beth Pendergrass
Steve Phillips
Robyn Probus

Chuck Richardson
Randy Salt
Joseph Schussler
Suzanne Smotherman
Scarlet Sneed
Kandi Thomas
Clare Tucker
Patricia Wakefield
Barbara White
Lisa Williams
Dan Willis
Dena Winningham
Gayle Wortham-Hatch

Division of County Audit

Art Alexander
Jim Arnette
Penny Austin
Gene Autry
Jeff Bailey
Marvin Bond
Nolan Bradford
Sharee Brewer
Bryan Burklin
Kathi Burriss
Kathy Clements
Jerry Durham
Michael Ford
David Frakes
Jerry Gallemore
Eugene Hampton
Kevin Huffman
Michael Hulme
Wilma Johnston

Joe Kimery
Carl Lowe
Kelley McNeal
Norm Norment
Richard Norment
Bob Powell
Ferman Pride
Steve Reeder
Keith Rice
June Rogers
David Sturtevant
Lester Tackett
Larry Taylor
Mark Treece
Lee Ann West
Kent White
Horace Wiseman
Greg Worley

Division of Municipal Audit

Dennis Dycus

Certified Professional Secretary

Division of State Audit

Paula Null

Tushama Harden

Division of County Audit

Sweeking Bataille
Theresa Gervin

Karen Patterson

Division of Municipal Audit

Rosemary Dixon

**State Audits Released
During the Year Ended
June 30, 2003**

Financial and Compliance Audits

State Departments, Agencies, and Institutions

Alcoholic Beverage Commission
CAFR 2002
Clean Water State Revolving Fund
Department of Children's Services
Department of Commerce and Insurance
Department of Education
Department of Environment and Conservation
Department of Finance and Administration Including TennCare
Department of Financial Institutions
Department of General Services
Department of Health
Department of Human Services
Department of Labor and Workforce Development
Department of Revenue
Department of State
Department of Transportation
Department of the Treasury
Executive Department
Local Government Group Insurance Fund
Medicare Supplement Insurance Fund
Office of Legislative Administration
Office of the Executive Director of the District Attorneys General
Conference
Office of the Comptroller of the Treasury
Post-Conviction Defender Commission
Single Audit 2002
State University and Community College System of Tennessee –
Central Office
Teacher Group Insurance Fund
Tennessee Advisory Commission on Intergovernmental Relations
Tennessee Arts Commission
Tennessee Board of Probation and Parole
Tennessee Commission on Aging and Disability
Tennessee Consolidated Retirement System
Tennessee Corrections Institute
Tennessee Health Facilities Commission
Tennessee Housing Development Agency
Tennessee Local Development Authority
Tennessee Sports Hall of Fame
Tennessee State School Bond Authority
Tennessee State Veterans' Homes Board
Tennessee Student Assistance Corporation

Universities, Colleges, Technical Institutes, and Technology Centers

Austin Peay State University
Columbia State Community College
East Tennessee State University
Middle Tennessee State University
Nashville State Technical Institute
Northeast State Technical Community College
Roane State Community College
Roane State Community College Foundation
Southwest Tennessee Community College
Tennessee State University
Tennessee Technological University
Tennessee Technological University Dormitory Corporation
Tennessee Technology Center at Crossville
Tennessee Technology Center at Dickson
Tennessee Technology Center at Elizabethton
Tennessee Technology Center at Harriman
Tennessee Technology Center at Jacksboro
Tennessee Technology Center at Knoxville
Tennessee Technology Center at Morristown
Tennessee Technology Center at Nashville
Tennessee Technology Center at Oneida
Tennessee Technology Center at Memphis
University of Memphis
The University of Tennessee
Volunteer State Community College
Walters State Community College

Community Services Agencies

Davidson County Metropolitan Community Services Agency
Knox County Community Services Agency
Memphis and Shelby County Community Services Agency
Mid Cumberland Community Services Agency
Upper Cumberland Community Services Agency
East Tennessee Community Services Agency

TennCare Audits

Claiborne County Nursing Home
Dickson County Nursing Home
Hardin County Nursing Home
Perry County Nursing Home
Rosewood Manor

Performance Audits

Department of Commerce and Insurance
Department of Financial Institutions
Department of Revenue
Department of Transportation
Specialty License Plates
State Parks Purchasing Authority
Tennessee Higher Education Commission
Tennessee Human Rights Commission
Tennessee Student Assistance Corporation

Special Investigations

Review of Issues Regarding an Employee's Credentials and Positions
Held With State Departments and the University of Tennessee
Review of Improper Grant Reimbursement Claims Submitted by
Agricenter International, Inc.

County Audits Released During the Year Ended June 30, 2003

Financial and Compliance Comprehensive Annual Financial Reports For the Year Ended June 30, 2002

Counties

Anderson	Franklin	Loudon
Bedford	Gibson	Macon
Benton	Giles	Madison
Bledsoe	Grainger	Marion
Blount	Greene	Marshall
Bradley	Grundy	Maury
Campbell	Hancock	McNairy
Cannon	Hardeman	Meigs
Carroll	Hardin	Monroe
Carter	Hawkins	Montgomery
Cheatham	Haywood	Moore
Chester	Henderson	Morgan
Claiborne	Henry	Obion
Clay	Hickman	Overton
Cocke	Houston	Perry
Coffee	Humphreys	Pickett
Crockett	Jackson	Polk
Cumberland	Jefferson	Putnam
Decatur	Johnson	Rhea
DeKalb	Lake	Roane
Dickson	Lauderdale	Robertson
Dyer	Lawrence	Rutherford
Fayette	Lewis	Scott
Fentress	Lincoln	Sequatchie

Sevier	Trousdale	Wayne
Smith	Unicoi	Weakley
Stewart	Union	White
Sullivan	Van Buren	Williamson
Tipton	Warren	Wilson

Special School Districts

Paris Special School District
McKenzie Special School District

Special Reports and Limited Reviews

Cane Creek Watershed District (For the Period July 1, 1999, through June 30, 2000)
Reviews of Funds Administered by the District Attorneys General and Judicial District Drug Task Force Funds – First through the Thirty-First Judicial Districts (July 1, 2001, through June 30, 2002)
Limited Review of the Office of Juvenile Court Clerk, Shelby County (For the Period July 1, 2000, through June 30, 2002)
Limited Review of the Office of County Clerk, Metropolitan Nashville/Davidson County (December 2002)

Municipal Audit Investigative Audit Reports Released During the Year Ended June 30, 2003

City of Bolivar (Selected Records)
Sullivan Central High School – Sullivan County Schools
City of Ridgetop
City of LaVergne – Basketball Court Construction
Porter-Leath Children's Center/Special Needs Adoption Program
New Market Utility District
Cherokee Children and Family Services, Inc.
Town of Spring Hill (Procedures)
City of Millersville (Traffic Citations)
Castalian Springs – Bethpage Utility District
Ripley Power and Light System
Paul Caywood Elementary School – Lexington City Schools
City of Morristown
Town of Adamsville

NSAA

National State Auditors Association

**State of Tennessee
Comptroller of the Treasury
Department of Audit**

**Quality Control Review
For the Period July 1, 2001
through June 30, 2002**

REPORT

2401 Regency Road • Suite 302 • Lexington, Kentucky 40503 • (859) 276-1147



National State Auditors Association

August 13, 2002

John G. Morgan
Comptroller of the Treasury
Suite 1500, James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243

Dear Mr. Morgan:

We have reviewed the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period July 1, 2001 through June 30, 2002. A system of quality control encompasses the department's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the department. Our responsibility is to express an opinion on the design of the system, and the department's compliance with the system based on our review.

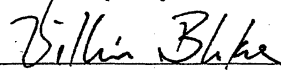
We conducted our review in accordance with the policies and procedures for external quality control reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the department's system of quality control for audits conducted in accordance with government auditing standards. In addition, we tested compliance with the department's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the department's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period July 1, 2001 through June 30, 2002 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.



Team Leader
National State Auditors Association
External Quality Control Review Team



Concurring Reviewer
National State Auditors Association
External Quality Control Review Team

Reimond P. Van Daniker, NASACT Executive Director, rvandaniker@nasact.org
2401 Regency Road, Suite 302, Lexington, Kentucky 40503-2914, Telephone (859) 276-1147, Fax (859) 278-0507
444 N. Capitol Street, NW, Suite 234, Washington, DC 20001, Telephone (202) 624-5451, Fax (202) 624-5473
www.nasact.org

**Comptroller of the Treasury
Department of Audit
Schedule of Revenues, Expenditures, and Reserves
For the Years Ended June 30, 2003, and June 30, 2002**

	Year Ended June 30, 2003				Year Ended June 30, 2002			
	State Audit	County Audit	Municipal Audit	Department Total	State Audit	County Audit	Municipal Audit	Department Total
RESERVES								
Reserves carried forward for encumbrances	\$ 3,888.50	\$ -	\$ -	\$ 3,888.50	\$ -	\$ -	\$ -	\$ -
REVENUES								
Appropriation	\$ 8,502,700.00	5,696,000.00	1,283,200.00	15,481,900.00	\$ 7,868,000.00	5,379,600.00	\$ 1,216,000.00	\$ 14,463,600.00
Departmental revenues	3,661,304.70	885,660.43	170,103.05	4,717,068.18	4,467,085.26	915,455.91	209,789.33	5,592,330.50
Total revenues	\$ 12,164,004.70	6,581,660.43	1,453,303.05	20,198,968.18	\$ 12,335,085.26	6,295,055.91	\$ 1,425,789.33	\$ 20,055,930.50
Total reserves and revenues	\$ 12,167,893.20	6,581,660.43	1,453,303.05	20,202,856.68	\$ 12,335,085.26	6,295,055.91	\$ 1,425,789.33	\$ 20,055,930.50
EXPENDITURES								
Personal services	\$ 8,359,915.13	4,417,549.60	968,256.23	13,745,720.96	\$ 8,335,121.13	4,350,870.28	\$ 907,571.36	\$ 13,593,562.77
Employee benefits	2,203,135.16	1,206,604.22	244,623.88	3,654,363.26	1,944,357.49	1,056,730.82	206,073.07	3,207,161.38
Total payroll	\$ 10,563,050.29	5,624,153.82	1,212,880.11	17,400,084.22	\$ 10,279,478.62	5,407,601.10	\$ 1,113,644.43	\$ 16,800,724.15
Travel	\$ 529,331.48	\$ 376,910.46	\$ 57,575.14	\$ 963,817.08	\$ 453,830.21	\$ 355,870.42	\$ 52,859.94	\$ 862,560.57
Printing, duplicating, and film processing	68,483.74	94,901.45	4,752.60	168,137.79	65,305.22	87,065.44	9,523.45	161,894.11
Communication and shipping costs	16,204.03	28,883.02	5,888.32	50,975.37	16,211.31	28,705.35	6,448.19	51,364.85
Maintenance, repairs, and service	36,088.00	56.00	-	36,144.00	36,229.00	438.87	163.57	36,831.44
Professional and administrative services	69,827.40	37,432.90	6,159.26	113,419.56	116,359.67	51,414.32	5,164.35	172,938.34
Supplies	21,319.55	17,090.75	8,287.89	46,698.19	19,995.19	14,764.81	5,130.39	39,890.39
Rentals and insurance	396,324.80	142,860.45	65,336.00	604,521.25	349,231.94	141,491.44	65,036.00	555,759.38
Motor vehicle operations	-	5.01	-	5.01	-	-	-	-
Awards and indemnities	-	-	-	-	707.52	164.71	37.77	910.00
Grants and subsidies	7,906.15	3,532.95	605.35	12,044.45	29,191.41	6,654.09	200.00	36,045.50
Equipment	8,199.00	-	6,663.07	14,862.07	-	-	-	-
Billings and Records Management	34,438.27	18,219.79	6,433.04	59,091.10	72,959.62	21,780.75	7,627.29	102,367.66
Total other	\$ 1,188,122.42	\$ 719,892.78	\$ 161,700.67	\$ 2,069,715.87	\$ 1,160,021.09	\$ 708,350.20	\$ 152,190.95	\$ 2,020,562.24
Total current year	\$ 11,751,172.71	\$ 6,344,046.60	\$ 1,374,580.78	\$ 19,469,800.09	\$ 11,439,499.71	\$ 6,115,951.30	\$ 1,265,835.38	\$ 18,821,286.39
Excess of reserves and revenues over expenditures	\$ 416,720.49	\$ 237,613.83	\$ 78,722.27	\$ 733,056.59	\$ 885,585.55	\$ 179,104.61	\$ 159,953.95	\$ 1,234,644.11
Reserves carried forward for encumbrances	\$ -	\$ -	\$ -	\$ -	\$ 3,888.50	\$ -	\$ -	\$ 3,888.50
Amount reverting	416,720.49	237,613.83	78,722.27	733,056.59	891,697.05	179,104.61	159,953.95	1,230,755.61
Total	\$ 416,720.49	\$ 237,613.83	\$ 78,722.27	\$ 733,056.59	\$ 885,585.55	\$ 179,104.61	\$ 159,953.95	\$ 1,234,644.11

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